Bone Medical Limited (ACN 009 109 755) to be renamed:

Botanix Pharmaceuticals Limited

Prospectus

For an offer of 150,000,000 Shares (on a post-Consolidation basis) at a price of $0.02 each to raise $3,000,000 before costs, with the ability to accept Oversubscriptions of up to an additional 25,000,000 Shares at $0.02 each to raise an additional $500,000 (**Offer**).

Re-compliance with Chapters 1 and 2

In addition to the purpose of raising funds under the Offer and the Advisor Options Offer, this Prospectus is issued for the purpose of re-complying with the admission requirements under Chapters 1 and 2 of the Listing Rules following a change to the nature and scale of the Company's activities.

Conditional Offers

The Offers are conditional upon certain events occurring. Please refer to Section 2.4 for further information.

The Offers are not underwritten.

Important Notice

This is an important document and investors should read the document in its entirety and are advised to consult with their professional advisers before deciding whether to apply for securities pursuant to this Prospectus.

Any investment in the Company under this Prospectus should be considered speculative in nature and prospective investors should be aware that they may lose some or all of their investment.

Lead Manager to the Offer

Argonaut Securities Pty Limited

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IMPORTANT INFORMATION

Prospectus

This Prospectus is dated 13 May 2016 and was lodged with ASIC on that date. ASIC, ASX and their respective officers do not take any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

Within 7 days of the date of this Prospectus, the Company will make an application to ASX for the Shares offered pursuant to the Prospectus to be admitted for quotation on ASX.

Shares will not be issued pursuant to this Prospectus later than 13 months after the date of this Prospectus.

Persons wishing to apply for Shares pursuant to the Offer must do so using the Application Form attached to or accompanying this Prospectus. Before applying for Shares potential investors should carefully read the Prospectus so that they can make an informed assessment of:

- the rights and liabilities attaching to the Shares;
- the assets and liabilities of the Company; and
- the Company's financial position and performance, profits and losses, and prospects.

Investors should carefully consider these factors in light of their own personal financial and taxation circumstances.

Any investment in the Company should be considered speculative. Refer to Section 7 for details relating to risk factors. Applicants should read this document in its entirety and persons considering applying for securities pursuant to the Prospectus should obtain professional advice from an accountant, stockbroker, lawyer or other adviser before deciding whether to invest.

No person is authorised to give any information or to make any representation in relation to the Offers which is not contained in this Prospectus. Any information or representation not so contained may not be relied upon as having been authorised by the Company or the Directors in relation to the Offers.

The offer of Shares made pursuant to this Prospectus is not made to persons to whom, or places in which, it would not be lawful to make such an offer of Shares. No action has been taken to register the Offers under this Prospectus or otherwise permit the Offer to be made in any jurisdiction outside Australia. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law in those jurisdictions and therefore persons who come into possession of this Prospectus should seek advice on and observe any of these restrictions. Failure to comply with these restrictions may violate securities laws.

Re-compliance with Chapters 1 and 2 of the Listing Rules

The ASX has advised the Company that the Acquisition will constitute a change to the nature and scale of the Company's activities. Pursuant to Listing Rule 11.1.3, the ASX requires the Company to re-comply with the admission requirements of Chapters 1 and 2 of the Listing Rules, as if applying for admission to the official list of ASX. Accordingly, this Prospectus is issued for the purpose of satisfying Chapters 1 and 2 of the Listing Rules, as well as for the purpose of making the Offers.

Conditional Offer

The Offers contained in this Prospectus are conditional on certain events occurring. If these events do not occur, the Offers will not proceed and investors will be refunded their Application Monies without interest.

Please refer to Section 2.4 for further details on the conditions attaching to the Offers.

The Offers remain conditional on, amongst other things, Completion taking place under the Acquisition Agreement.

Changes in activities and suspension from trading

The Company is currently listed on ASX. In accordance with the Listing Rules, its Shares will be suspended from trading on ASX immediately prior to the General Meeting to be held on 14 June 2016. At the General Meeting, the Shareholders will be asked to approve the change in the nature and scale of the Company's activities as a consequence of the Acquisition.

The Company's Shares may not be reinstated to ASX. For further information see Section 7.1(a).

Electronic Prospectus

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please contact the Company at +61 8 9482 0580 and the Company will send you, at no cost, either a hard copy or a further electronic copy of the Prospectus or both. Alternatively, you may obtain a copy of the Prospectus from the Company's website at www.bone-ltd.com.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

Risks

Before deciding to invest in the Company, potential investors should read the entire Prospectus and, in particular, in considering the Prospects of the Company potential investors should consider the risk factors that could affect the financial performance and assets of the Company. Investors should carefully consider these factors in light of their personal circumstances (including financial and taxation issues). The Shares offered by this Prospectus should be considered speculative. Please refer to Section 7 for details relating to risk factors.

Forward-looking statements

This Prospectus contains forward-looking statements which incorporate an element of uncertainty or risk, such as 'intents', 'may', 'could', 'believes', 'estimates', 'targets' or 'expects'. These statements are based on an evaluation of current economic and operating conditions, as well as assumptions regarding future events. These events, as at the date of this Prospectus, are expected to take place, but there is no guarantee that such will occur as anticipated or at all given that many of the events are outside the Company's control.

Accordingly, the Company cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur. Further, the Company may not update or revise any forward-looking statement if events subsequently occur or information subsequently becomes available that affects the original forward-looking statement.

Consolidation

Unless otherwise stated, all references in this Prospectus are made on the basis that the 3⅓ for 1 Consolidation, for which Shareholder approval will be sought at the General Meeting to be held on 14 June 2016, has taken effect. References to Securities on a post-Consolidation basis are subject to the rounding effects of the Consolidation.

Photographs and diagrams

Photographs used in this Prospectus which do not have descriptions are for illustration only and should not be interpreted to mean that any person shown endorses the Prospectus or that the assets shown in them are owned by the Company. Diagrams used in this Prospectus may not be drawn to scale.

Miscellaneous

All references to "$", "A$", "AUD", "dollar" and "cents" are references to Australian currency unless otherwise stated. All references to "US$" and "USD" are references to the currency of the United States of America unless otherwise stated.

All references to time relate to the time in Perth, Western Australia unless otherwise stated.

A number of terms and abbreviations used in this Prospectus have defined meanings which appear in Section 13.

CORPORATE DIRECTORY

Existing Board

Mr Phillip Wingate
Mr Robert Towner
Mr John Hannaford

Proposed Board

Mr Matthew Callahan
Mr Graham Griffiths
Dr H. William Bosch
Mr Robert Towner

Company Secretary

Mr Phillip Wingate

Registered Office

Ground Floor, 16 Ord Street
WEST PERTH WA 6005

Phone: (08) 9482 0580
Fax: (08) 9482 0505

Botanix Pharmaceuticals, Inc.

252 North Radnor-Chester Road
Radnor PA 19087
USA

Websites

www.bone-ltd.com
www.botanixpharma.com
www.botanixpharmaceuticals.com

ASX Code

Current: BNE
Proposed: BOT

Auditor to the Company

BDO Audit (WA) Pty Ltd
38 Station Street
SUBIACO WA 6008

Auditor to Botanix Pharmaceuticals, Inc.

BDO Audit (WA) Pty Ltd
38 Station Street
SUBIACO WA 6008

Legal Advisor

Bellanhouse Legal
Ground Floor, 11 Ventnor Avenue
WEST PERTH WA 6005

Lead Manager

Argonaut Securities Pty Ltd
Level 30, Allendale Square
77 St Georges Terrace
Perth WA 6000

Investigating Accountant

BDO Corporate Finance (WA) Pty Ltd
38 Station Street
SUBIACO WA 6008

Intellectual Property Expert

Wrays
56 Ord Street
WEST PERTH WA 6005

Share Registry*

Automic Registry Services
Suite 1a, Level 1
7 Ventnor Avenue
WEST PERTH WA 6005
Phone: (08) 9324 2099

*This entity is included for information purposes only. It has not been involved in the preparation of this Prospectus.

LETTER FROM THE BOARD

Dear Investor

On behalf of the Directors, it is my pleasure to invite you to invest in Bone Medical Limited (**Company**), which is to be renamed "Botanix Pharmaceuticals Limited".

By this Prospectus, the Company is offering for subscription up to 150,000,000 Shares at $0.02 each to raise up to $3,000,000 (before costs and expenses of the Offer). The Company also has the ability to accept oversubscriptions for up to an additional 25,000,000 Shares to raise up to an additional $500,000 at the Directors' discretion (**Oversubscriptions**).

As announced by the Company on 21 March 2016, the Company has entered into an agreement to acquire Botanix Pharmaceuticals, Inc. (**Botanix Pharmaceuticals**).

Botanix Pharmaceuticals is a company in the medical dermatology sector developing prescription treatments for serious skin diseases, including acne, psoriasis and atopic dermatitis. Botanix Pharmaceuticals' lead product under development (BTX1503) is a topically applied gel for the treatment of serious acne, based on a new pharmaceutical ingredient that is understood to work in four unique ways - it reduces excessive production of oils, inhibits over-proliferation of oil producing cells, inhibits bacteria and provides a new anti-inflammatory effect. There is a significant unmet patient need for effective therapies in the global acne market, given the relatively few new products being developed and the recent withdrawal of products from the market due to their significant side effect problems.

Botanix Pharmaceuticals' lead product and pipeline products are all based on an innovative drug delivery technology known as Permetrex™, which helps solve the challenge of delivering active pharmaceutical ingredients across the skin more effectively. This technology was developed by Dr Eugene Cooper, a consultant to the Company, who has granted a licence to Botanix Pharmaceuticals for the use of Permetrex™. Dr Cooper also co-invented the NanoCrystal® drug delivery technology which has been utilised in six products approved by the Food and Drug Administration of the United States (**FDA**).

Botanix Pharmaceuticals' products under development are intended for the treatment of acne, psoriasis and atopic dermatitis. These skin diseases represent significant market opportunities for the Company and leverage Botanix Pharmaceuticals' investment in its novel pharmaceutical active ingredient and access to the Permetrex™ delivery technology.

Botanix Pharmaceuticals' scientific team has deep knowledge, expertise and passion to develop and commercialise its dermatology products and key members of the management team have compelling and unique experience in rapidly conducting clinical and gaining FDA approvals for new products. The proposed Board features highly experienced members with broad experience in partnering and licensing technologies, which will inform strategies and activities to maximise the value of Botanix Pharmaceuticals.

The funds being raised pursuant to this Prospectus are intended to be used to complete the formulation development and manufacturing of its lead product for acne, BTX1503, conduct the first human clinical trials for BTX1503, and progress the development of the psoriasis and atopic dermatitis products. See Section 2.7 for further detail about the use of funds.

The Offer is subject to a number of conditions, which are detailed in Section 2.4.

I recommend that you read this Prospectus in its entirety prior to making a decision to invest in the Company. Following Completion of the Acquisition, some of the key risks that the Merged Group may face include challenges with the manufacturing of its development stage products for clinical trials, the failure of clinical trials required to show the safety and efficacy of its

development stage products, competition from other companies to the Merged Group's products and fund raising or partnering challenges that prevent the Merged Group from developing and commercialising its development stage products. See Section 7 for further information about the key risks of investing in the Merged Group.

This is an exciting time for our Company and on behalf of the Board I look forward to welcoming you as a Shareholder.

Yours faithfully

Mr Robert Towner
Chairman
Bone Medical Limited (to be renamed "Botanix Pharmaceuticals Limited")
13 May 2016

KEY OFFER DETAILS

Key financial information	
Price per Share under the Offer	$0.02 per Share (for the Offer)
Shares to be offered under the Offer (excluding Oversubscriptions)	150,000,000
Cash raised under the Offer (before costs) (excluding Oversubscriptions)	$3,000,000
Shares to be offered under the Offer (including Oversubscriptions)	175,000,000
Cash raised under the Offer (before costs) (including Oversubscriptions)	$3,500,000
Consideration Shares	153,060,000
Total number of Shares on issue before the Offers (pre-Consolidation)	257,796,569
Total number of Shares on issue before the Offers (post-Consolidation)	77,338,971
Total number of Shares on issue following the Offers (excluding Oversubscriptions)	380,398,971
Total number of Shares on issue following the Offers (including Oversubscriptions)	405,398,971

Notes:

1. Except where stated otherwise, the above figures assume the Consolidation has occurred and no Options are exercised.
2. Exact figures may be subject to the rounding effects of the Consolidation.
3. Refer to Section 2.8 for further details relating to the proposed capital structure of the Company.

Indicative timetable	
Lodgement of this Prospectus with ASIC	13 May 2016
Opening Date of the Offers	13 May 2016
General Meeting of the Company	14 June 2016
Closing Date of the Offers and Completion of the Acquisition	14 June 2016
Dispatch of holding statements	28 June 2016
Expected date for Shares to be reinstated to trading on ASX	5 July 2016

Note: The dates shown in the table above are indicative only and may vary subject to the Corporations Act, the Listing Rules and other applicable laws. In particular, the Company reserves the right to vary the Opening Date and the Closing Date without prior notice, which may have a consequential effect on the other dates. Applicants are therefore encouraged to lodge their Application Form as soon as possible after the Opening Date if they wish to invest in the Company.

INVESTMENT OVERVIEW

This Section is a summary only. It is not intended to provide full information for investors intending to apply for Shares offered pursuant to this Prospectus. This Prospectus should be read and considered in its entirety.

Topic	Summary	More information
Company		
Who is the issuer of this Prospectus?	Bone Medical Limited (ACN 009 109 755) (**Company**) (to be renamed "Botanix Pharmaceuticals Limited").	-
Who is the Company and what does it do?	The Company was admitted to the official list on 24 January 1985. The Company's most recent primary activity was the development of treatments for bone and joint diseases and degeneration, in particular osteoporosis and arthritis. In November 2014, the Company terminated its licence and research agreements with Proxima Group, the inventor and patent holder of the treatments for bone and joint diseases and degeneration. Following the termination of the licence and research agreements with Proxima Group, the Company has focused on identifying new opportunities with the objective of increasing Shareholder value.	Section 3.1
What is the Acquisition?	Since completion of the recapitalisation of the Company in January 2014, the Company has been focused on seeking new strategic growth opportunities. The Company now proposes to change the nature of its business to a pharmaceutical company by acquiring 100% of the fully paid ordinary shares in Botanix Pharmaceuticals Inc., a private corporation incorporated in Delaware, United States.	Section 3.2
What is Botanix Pharmaceuticals and what does it do?	Botanix Pharmaceuticals is a specialty pharmaceutical company focused on developing innovative and differentiated medical dermatology products for dermatologists and their patients. Botanix Pharmaceuticals is developing new prescription products which are intended to treat serious skin diseases including acne, psoriasis and atopic dermatitis, by utilising a novel drug delivery technology (known as Permetrex™) to more effectively deliver an active pharmaceutical ingredient directly into the affected skin. Botanix Pharmaceuticals is led by an experienced Board and management team, who have been responsible for the rapid development of the business and has a successful track record of developing, protecting and commercialising novel scientific products and processes.	Sections 3.4 - 3.8

Topic	Summary	More information
What does Botanix Pharmaceuticals do and how is it different?	Botanix Pharmaceuticals' first products, which are currently under development, utilise a synthetic form of a natural plant extract which is currently in late stage clinical trials, being conducted by other pharmaceutical companies for a range of diseases. However, this extract has never been studied in FDA or TGA regulated clinical trials for skin disease. Botanix Pharmaceuticals' products under development utilise a pure and very high quality manufactured synthetic form of the chemical also found in natural extracts, known as *2-[(1R,6R)-6-isopropenyl-3-methylcyclohex-2-en-1-yl]-5-pentylbenzene-1,3-diol*. Natural extract forms of this molecule (known as cannabidiol) have been proposed as treatments for a range of diseases and are currently being studied in numerous advanced clinical trials conducted by other pharmaceutical companies, to treat epilepsy, pain and arthritis (amongst other indications). To the knowledge of the Directors and the Proposed Directors, no well-controlled TGA or FDA regulated human clinical studies have ever been conducted with cannabidiol to treat skin disease, and no products with cannabidiol have ever been approved to treat skin disease, despite significant scientific support for the drug's mechanism of action in skin disease. Upon Completion of the Acquisition, the Merged Group plans to be the first company to study a synthetic form of cannabidiol in well-controlled human studies for skin disease and then if those studies are successful, to secure necessary regulatory and marketing approval for its products.	Section 3.8
Who are the people behind Botanix Pharmaceuticals?	The key management personnel of Botanix Pharmaceuticals are Mr Matthew Callahan, Dr William Bosch, and consultant Dr Eugene Cooper, each of whom have unique experience in the drug delivery industry, having been closely involved in developing and/or gaining approval for more than 10 combined FDA approvals for products that utilise novel drug delivery systems. Each of Mr Callahan, Dr Bosch and Dr Cooper have previously worked with each other in other companies and have access to a broad network of knowledgeable and experienced executives and consultants that may assist in developing, testing and gaining approval for Botanix Pharmaceuticals' product candidates. Mr Callahan and Dr Bosch have each signed consultancy agreements with the Company (which take effect from Completion), and are Proposed Directors following Completion. Dr Cooper will continue as a consultant to the Merged Group. Botanix Pharmaceuticals has also attracted two of the leading acne researchers and clinicians in the United States as consultants to help guide the development of Botanix Pharmaceuticals' product candidates, Emeritus Professor	Sections 3.5, 9.1 and 9.3

Topic	Summary	More information
	James Leyden from the University of Pennsylvania and Professor Diane Thiboutot from Penn State University. Details of the Proposed Directors and senior management team are provided in Section 9. The terms and conditions of the consulting agreements for Professor Leyden and Professor Thiboutot, the director appointment agreements for the Proposed Directors, and the respective consultancy agreements are in Section 10.	
Why is the Company required to re-comply with Chapters 1 and 2 of the Listing Rules?	The Acquisition will constitute a change in the nature and scale of the Company's activities under Listing Rule 11.1. As a result, the Company is required to re-comply with Chapters 1 and 2 of the Listing Rules, being the admission requirements of the ASX, in addition to seeking the approval of Shareholders to the Acquisition. The Offers are therefore conditional on the Company receiving approval from the ASX that it has re-complied with the admission requirements under Chapters 1 and 2 of the Listing Rules. If the ASX does not approve the Company's re-compliance with the ASX's admission requirements, the Offers will not proceed, no Shares will be issued pursuant to this Prospectus and the Company will repay all Application Monies received.	Sections 1.2 and 1.3
Business Model		
What are the assets of Botanix Pharmaceuticals?	Botanix Pharmaceuticals holds the following intangible assets: (a) Worldwide exclusive licence to use the Permetrex™ drug delivery technology to deliver a range of compounds including cannabidiol; (b) Australian provisional patent application number 2016901254 and United States provisional patent application number 62/318,317 protecting BTX1503 (c) Trade secrets and other intellectual property associated with pharmaceutical formulations for BTX1503 and its other pipeline products; (d) Supply arrangements with a specialist manufacturer for the supply of synthetic cannabidiol; and (e) Consulting arrangements with Emeritus Professor James Leyden and Professor Diane Thiboutot, two world leading acne and skin disease experts as well as Dr Cooper.	Sections 3.8(b), 3.8(c), 8 and 10.2
How does Botanix Pharmaceuticals generate income?	Botanix Pharmaceuticals does not currently generate revenue. The Merged Group intends to derive revenue from the following possible sources should its business model be	Section 3.6

Topic	Summary	More information
	successful and following the launch of its first medical dermatology product: (a) licence milestones and royalties from agreements to license or partner its portfolio of pipeline products; and (b) sales revenues from the commercialisation of approved medical dermatology products.	
Where are the operations of Botanix Pharmaceuticals?	Botanix Pharmaceuticals' operations are based in Radnor, Pennsylvania and conducts research, formulation development and manufacturing operations in Phoenixville, Pennsylvania. Upon Completion of the Acquisition, the Merged Group plans to conduct initial human clinical trials in Australia and later stage clinical trials in the United States.	Sections 3.4 and 3.8(f)
What is the Merged Group's proposed strategy?	Following Completion of the Acquisition, the Merged Group's strategy is to progress the development and commercialisation of Botanix Pharmaceuticals' innovative dermatology products by: • **Rapid development of BTX1503 for the treatment of acne** Botanix Pharmaceuticals has completed initial formulation development for its first product (BTX1503) for the treatment of acne and is progressing towards Good Manufacturing Practices (**GMP**) formulation scale-up and first clinical trials. It is intended that the expertise of Botanix Pharmaceuticals' team of key management personnel and consultants in efficiently designing and executing clinical development programs, will enable the Merged Group to quickly establish data that enables external collaborations and progression of these assets towards FDA approvals. • **Development of pipeline products** The Merged Group intends to progress the development and commercialisation of Botanix Pharmaceuticals' pipeline products through proof of concept and into clinical development. Botanix Pharmaceuticals' follow-on product candidates in psoriasis and atopic dermatitis use a similar delivery technology (Permetrex™) as its lead product for acne, BTX1503. Accordingly, some of the development work for these pipeline products may not need to be repeated. Opportunities may exist to collaborate with researchers to test these pipeline products in established skin and animal models, rather than	Sections 3.6, 3.7 and 3.8

Topic	Summary	More information
	require the Merged Group to develop these models itself. • **Commercialisation and partnerships** The Merged Group intends on maximising the value of the Botanix Pharmaceuticals' portfolio of products by commercialising products (once approved) itself where it would be effective, and partnering with other companies as appropriate. • **Continued growth of team** The Merged Group intends on continuing the work of Botanix Pharmaceuticals in building a team of committed, experienced employees and consultants and leveraging Botanix Pharmaceuticals' relationships with members of the dermatology community.	
What are the key dependencies of the Merged Group's business model?	The key factors that the Merged Group will depend upon to meet its objectives are: (a) Successful Completion of the Acquisition; (b) The achievement of positive results in the testing phases of its product candidates; (c) The Merged Group's ability to obtain and maintain the necessary regulatory approvals required to conduct its proposed research, manufacturing and clinical trial operations; (d) The successful engagement of partners to potentially help develop its products through more expensive and complex later stage clinical trials and/or help commercialise its products once approved; and (e) The ability to protect the Merged Group's intellectual property.	Sections 3.6 and 3.7
Key Strengths and Investment Highlights		
Proposed novel treatments for acne leveraging a growing evidence base	The Directors and Proposed Directors believe that Botanix Pharmaceuticals' BTX1503 product for the treatment of acne, if approved by the FDA and other relevant regulators, will be the first to utilise a new mechanism of action to treat serious acne which addresses the four major aspects of the disease, namely excessive lipid or oil production, hyper-proliferation of oil producing sebocyte cells, bacterial infection and inflammation. Cannabidiol has a potential role in treating and preventing skin disease, but challenges with the impurity and variability of the cannabidiol drug substance, as well as the difficulty of delivering it across the skin effectively, have significantly retarded cannabidiol development as a pharmaceutical product. Botanix Pharmaceuticals' approach of utilising a pure and GMP manufactured synthetic form of cannabidiol combined with a novel skin delivery technology,	Sections 3.8(d) and 4.3(a)

Topic	Summary	More information
	Permetrex™, are focused on solving both of these challenges.	
Advanced development and fast human data generation	Botanix Pharmaceuticals has already completed substantial research and preparatory work on the formulation for BTX1503 and plans to rapidly complete GMP manufacturing of a formulation to test in first human safety and evidence of efficacy clinical studies. The Merged Group will either conduct its clinical studies in the United States or in Australia. If first clinical studies are undertaken in the United States, the Merged Group will be required to file an Investigational New Drug (**IND**) application with FDA and also comply with certain laws and regulations administered by the Drug Enforcement Administration of the United States (**DEA**). If first clinical studies are undertaken in Australia, the Merged Group will conduct these studies pursuant to the Therapeutic Goods Administration's (**TGA's**) Clinical Trial Notification (**CTN**) process, which is viewed as potentially more efficient than the FDA's IND process. It is likely that later stage human studies would subsequently be conducted in the United States pursuant to an IND application in due course.	Section 3.8(d)
Significant unmet patient needs	There has been little innovation in the field of acne treatment and there remains unmet patient and treatment need, including: • the need for a topical product that inhibits production of oils or lipids by the sebaceous glands; • antibiotic-independent mechanisms for reducing P. acnes colonisation and infection; and • an agent with the efficacy of the leading oral product (isotretinoin or 'Accutane'), but which is potentially free of its serious side effects. BTX1503 has the potential to meet these significant unmet patient needs.	Section 3.8(d)
Established GMP manufacturing facility access and DEA licensing	Synthetic cannabidiol is a "Schedule 1" drug substance under the Controlled Substances Act (US) and is subject to strict control and regulation by the DEA. Botanix Pharmaceuticals has contracted with a specialised GMP facility in Phoenixville, Pennsylvania qualified to international standard ISO 14644-1 to develop BTX1503 (pursuant to the Sharp Clinical Agreement). The Sharp facility is licensed by the FDA and DEA to handle "Schedule I" substances under the Controlled Substances Act (US). Strict limitations are placed on organisations handling this highest of controlled substance classifications and Botanix Pharmaceuticals' access to this facility allows it to legally work with synthetic cannabidiol to develop its products.	Section 3.8(f)

Topic	Summary	More information
	Botanix Pharmaceuticals has received an import permit from the DEA to import cannabidiol into the United States for its drug development activities.	
Summary of key risks		
Prospective investors should be aware that subscribing for Shares in the Company involves a number of risks. The risk factors set out in Section 7, and other general risks applicable to all investments in listed securities, may affect the value of the Securities in the future. Accordingly, an investment in the Company should be considered highly speculative. This Section summarises only some of the risks which apply to an investment in the Company, and investors should refer to Section 7 for a more detailed summary of the risks.		
Innovative technological development, early stage	Botanix Pharmaceuticals' product candidates are at a relatively early stage of development and will require further pre-clinical and clinical testing to progress these products. No guarantee can be provided that the proposed development or clinical work will be successful or result in an approved product.	Section 7.2(a)
Manufacturing and production risks	Botanix Pharmaceuticals' manufacturing process for the BTX1503 acne product candidate and its pipeline products have not yet been scaled up to commercial scale. Production of GMP clinical trial material and commercial product using the Permetrex™ technology therefore has an element of risk as the technology is scaled up from the current formulation development scale.	Section 7.2(b)
Clinical trials risks	Botanix Pharmaceuticals' product development plans include the conduct of human clinical trials initially with BTX1503 and then the balance of the pipeline product candidates. Such trials are expensive and can be difficult to design and implement, in part because they are subject to rigorous regulatory requirements. Even if the results of Botanix Pharmaceuticals' initial clinical trials for BTX1503 are favourable, the following clinical trials for Botanix Pharmaceuticals' other products under development are expected to continue for several years and may take significantly longer to complete. In addition, regulatory authorities may suspend, delay or terminate Botanix Pharmaceuticals' trials at any time, or suspend or terminate the registrations and quota allotments it requires in order to procure and handle controlled substances, for various reasons. Generally, there is a high rate of failure for drug candidates proceeding through clinical trials. Further, even if the Merged Group views the results of a clinical trial to be positive, the FDA or other regulatory authorities may disagree with the Merged Group's interpretation of the data and may refuse to register or approve the products for commercial sale.	Section 7.2(c)

Topic	Summary	More information
Regulatory risks	The Merged Group will either conduct its clinical studies in the United States or in Australia. If first clinical studies are undertaken in the United States, the Merged Group will be required to file an IND application with FDA and also comply with certain laws and regulations administered by the DEA. If first clinical studies are undertaken in Australia, the Merged Group will file CTN applications with the TGA to enable it to conduct the initial clinical trial, or trials for BTX1503 in Australia. In this case, the Merged Group will likely later file an IND application with the FDA to conduct later stage clinical trials in the United States after successful completion of the initial Australian trials. The Directors and Proposed Directors believe that the Merged Group will have the necessary documentation and data to support a positive outcome from these filings. However, there can be no guarantee that the FDA or the TGA will allow the Merged Group to undertake the planned trials in the manner proposed, or potentially at all. As with any company involved in developing pharmaceutical products, for each product, the Merged Group and its partners will need to obtain regulatory approval in each country in which it intends to market the product in question. These products may not satisfy the requirements for regulatory marketing approval in some or all countries and/or the approval process may take longer than expected.	Section 7.2(d)
Product liability risks	As a manufacturer and supplier of products designed to be exposed to humans, the Merged Group will face an inherent risk of exposure to product liability claims, regulatory action and litigation. These risks will arise if the Merged Group's products are alleged to have caused significant loss or injury. In addition, the manufacture of skin products involves the risk of injury to consumers due to tampering by unauthorised third parties or product contamination. Previously unknown adverse reactions resulting from human exposure to the Merged Group's products alone or in combination with other medication or substances could also occur. A product liability claim or regulatory action against the Merged Group could result in increased costs, and adversely affect the Merged Group's reputation with its clients and consumers generally, and could have a material adverse effect on the Merged Group's results of operations and financial conditions.	Section 7.2(e)
Competition risks	The pharmaceutical industry is highly competitive and other companies around the world may commercialise products that may compete with the Merged Group's products, or create technology which competes with the Permetrex™ drug delivery technology, or any of the existing product candidates of Botanix Pharmaceuticals. The Merged Group's ability to compete in these markets	Section 7.2(f)

Topic	Summary	More information
	may also be limited by its relatively small human resource base, access to capital, speed of clinical development or other factors.	
Intellectual property risks	The Merged Group will heavily rely on its ability to obtain and maintain patent protection for its products and the Permetrex™ drug delivery platform for its success. The process of obtaining patent protection for products and technology is highly uncertain and the process involves complex and continually evolving factual and legal questions. Even though Botanix Pharmaceuticals has filed its first patent applications to protect BTX1503, Botanix Pharmaceuticals does not currently have any granted patents for BTX1503 or any of its other products under development. The Merged Group may also be forced to litigate to enforce or defend its intellectual property rights against infringement and unauthorised use by competitors, and to protect its trade secrets. In doing so, Botanix Pharmaceuticals may place its intellectual property at risk of being invalidated, unenforceable, or limited or narrowed in scope. Further, an adverse result in any litigation or defence proceedings may place pending applications at risk of non-issuance. In addition, if Dr Cooper (the licensor of the Permetrex™ technology) fails to enforce or defend his intellectual property rights, Botanix Pharmaceuticals' ability to develop and commercialise its product candidates and prevent competitors from making, using, and selling competing products may be adversely affected. Any such litigation could be very costly and could distract management from focusing on operating the Merged Group's business. The existence and/or outcome of any such litigation could harm its business, the results of operations and financial condition of the Merged Group.	Section 7.2(g)
Permetrex™ Licence Agreement	Botanix Pharmaceuticals relies on the Permetrex™ Licence Agreement, an exclusive licence agreement from Dr Cooper to use the Permetrex™ technology to develop Botanix Pharmaceuticals' products. Any breach of this agreement by the Merged Group may prohibit the Merged Group from being able to develop and commercialise its products and its operations and business would be adversely affected. The Merged Group will have to monitor its compliance with the Permetrex™ Licence Agreement on an ongoing basis.	Section 7.2(h)
Foreign exchange risks	Botanix Pharmaceuticals carries on the substantial part of its business in the United States and the Merged Group intends to continue its operations there. The Merged Group's budgets and expenditures have been prepared in United States and Australian dollars and currency fluctuations may therefore impact the Merged Group's ability to fund the programs that it has proposed in this	Section 7.2(i)

Topic	Summary	More information
	Prospectus. It is intended that the Merged Group will manage its exposure to currency fluctuations through the deposit of planned expenditures in the relevant currency in the relevant jurisdiction, while at the same time attempt to maximise the amount of interest that is available on the funds deposited and not immediately used following the Offers.	
Healthcare insurers and reimbursement	In both Australia and the United States' markets, sales of prescription pharmaceutical products are likely to depend in part upon the availability and amounts of reimbursement from third party health care payer organisations, including government agencies, private health care insurers and other health care payers. None of Botanix Pharmaceuticals' products are currently approved or reimbursed. There is considerable pressure to reduce the cost of pharmaceuticals, government and other third party insurance companies are increasingly attempting to contain health care costs by limiting both coverage and the level of reimbursement, and by refusing, in some cases, to provide any coverage for uses of approved products for disease indications for which the relevant regulatory authority has not granted marketing approval. No assurance can be given that any reimbursement will be provided by such payers at all or without substantial delay, or, if such reimbursement is provided, that the approved reimbursement amounts will be sufficient to enable the Merged Group to sell products (once developed and approved) on a profitable basis.	Section 7.2(j)
Reliance on key Personnel	The responsibility of overseeing the day-to-day operations and the strategic management of the Merged Group will depend substantially on its senior management and its key personnel. There can be no assurance given that there will be no detrimental impact on the Merged Group if one or more of these employees cease their engagement with the Merged Group.	Section 7.2(k)
Limited operating history	Botanix Pharmaceuticals has limited operating history and there is therefore uncertainty in relation to its business. Investors should consider the Merged Group's prospects in light of Botanix Pharmaceuticals' limited financial history. In addition, there is no guarantee that the Merged Group will be able to successfully develop or commercialise the Botanix Pharmaceuticals products currently under development, and if the Merged Group is unable to do so it will not be able to realise any revenues in the future.	Section 7.2(l)
Reliance on third parties	The Merged Group will be required to outsource key components of the development of its products (including, amongst other things, certain components of the clinical trial and GMP manufacturing processes).	Section 7.2(m)

Topic	Summary	More information
	There is no guarantee that the suppliers, consultants or other experts will be readily available or available on reasonable terms within the Merged Group's expenditure forecasts.	
Sufficiency of funding	The growth of the Merged Group, through product development and commercialisation activities, will require substantial expenditure and may not result in profitability being achieved. There can be no guarantees that the Company's cash reserves together with the funds raised by the Offer will be sufficient to successfully achieve all the objectives of the overall business strategy for the Merged Group. If the Merged Group is unable to use debt or equity to fund expansion after the substantial exhaustion of the net proceeds of the Offers and existing working capital, there can be no assurance that the Merged Group will have sufficient capital resources to continue to meet its objectives, or that it will be able to obtain additional resources on terms acceptable to the Merged Group or at all.	Section 7.3(a)
Reinstatement to the official list of ASX	The Company's Securities will be suspended prior to the General Meeting. It is anticipated that the Company's Securities will remain suspended until Completion of the Acquisition, Offers and Consolidation, re-compliance by the Company with Chapters 1 and 2 of the Listing Rules and compliance with any further conditions ASX imposes on such reinstatement. There is a risk that the Company will not be able to satisfy one or more of those requirements and that its Securities will consequently remain suspended from quotation.	Section 1.2
Board and management		
Who are the Directors of the Company?	The Existing Directors of the Company are: (a) Mr Phillip Wingate; (b) Mr Robert Towner; and (c) Mr John Hannaford. On completion of the Offers, changes will be made to the Board, with the retirement of Messrs Wingate and Hannaford, and the appointment of the Proposed Directors, so that the Board will then comprise: (a) Mr Graham Griffiths; (b) Mr Matthew Callahan; (c) Dr H. William Bosch; and (d) Mr Robert Towner. It is proposed that Mr Phillip Wingate will continue as Company Secretary.	Sections 9.1, 9.2 and 9.3

Topic	Summary	More information
Who are the key management personnel?	From Completion of the Acquisition, the key management personnel of the Company will include: (a) Mr Matthew Callahan – Executive Director; (b) Dr William Bosch – Executive Director/Chief Scientific Adviser; and (c) Dr Eugene Cooper – Consultant Formulation Development.	Sections 9.3 and 10.3(c)(iii)
What are the significant interests of Directors?	The interests of the Existing Directors and Proposed Directors are detailed in Section 9.4. The security holdings of the Existing Directors and Proposed Directors are set out in Section 9.5.	Sections 9.4 and 9.5
Financial information		
How have the Company and Botanix Pharmaceuticals been performing?	The historical financial information of the Company and Botanix Pharmaceuticals as 31 December 2015 is in the Investigating Accountant's Report in Section 6. The reviewed pro forma statement of financial position for the Company as at 30 June 2015 is in the Investigating Accountant's Report in Section 6. Following the change in the nature of its activities, the Merged Group will be focused on developing the Merged Group's business. Therefore, the Company's past operational and financial performance will not be of significant relevance to future activities.	Section 6
What is the key financial information for the Company?	Refer to the Investigating Accountant's Report in Section 6 for a discussion in respect of the key financial information of the Company in connection with the Acquisition. Investors should note that past performance is not a guide to future performance.	Section 6
How will the Merged Group fund its activities?	Following Completion of the Acquisition, the Merged Group's short to medium term activities will be funded from a combination of its operating cash flows, the money raised under the Offer, and existing cash reserves of the Company post-acquisition.	Section 2.7
Offers		
What is the Offer?	The Offer is an offer inviting the general public to apply for 150,000,000 Shares at an issue price of $0.02 each to raise $3,000,000 before costs (with the ability to accept Oversubscriptions for up to an additional 25,000,000 Shares to raise up to an additional $500,000, at the Directors' discretion).	Section 2.1

Topic	Summary	More information
What are the conditions of the Offers?	The Offers are conditional upon the following events occurring: (a) the Company raising $3,000,000 under the Offer; (b) Shareholders approving the Acquisition Resolutions put to them at the General Meeting to be held on 14 June 2016; (c) Completion of the Acquisition; (d) to the extent required by ASX or the Listing Rules, each person entering into a restriction agreement imposing such restrictions on trading of the Consideration Shares and any other Securities to be issued as mandated by the Listing Rules; and (e) the Company obtaining all regulatory approvals, including ASX approving the Company's re-compliance with the admission requirements under Chapters 1 and 2 of the Listing Rules. If any of the conditions are not satisfied then the Offers will not proceed, any Shares issued under this Prospectus will be deemed void and the Company will repay all Application Monies.	Section 2.4
Why is the Offer being conducted?	The purposes of the Offer are to: (a) meet the requirement that the Company re-complies with the ASX's admission requirements in accordance with Chapters 1 and 2 of the Listing Rules; (b) provide funding for the purposes outlined in Section 2.7; (c) provide the Merged Group with access to equity capital markets for future funding needs; and (d) enhance the public and financial profile of Botanix Pharmaceuticals and the Company.	Section 2.5
What is the US Merger?	The Acquisition will be undertaken by way of a merger in accordance with the Delaware General Corporation Law, in order to ensure the United States-based Botanix Vendor is entitled to the equivalent of "roll over relief" in the United States.	Section 2.20
Why is the Advisor Options Offer being conducted?	The Advisor Options Offer has been included in the Prospectus to remove the need for an additional document to be issued upon the exercise of any Options issued to the Lead Manager and/or its nominees under the Advisor Options Offer.	Section 2.3

Topic	Summary	More information
Proposed use of funds and other key terms of the Offers		
What is the proposed use of funds raised under the Offer?	The Company intends to apply the funds raised from the Offer as set out in Section 2.7.	Section 2.7
Will the Merged Group be adequately funded after completion of the Offers?	The Directors are satisfied that on completion of the Offers, the Merged Group will have sufficient working capital to carry out its stated objectives.	Section 2.7
What are the key dates of the Offers?	Lodgement of this Prospectus with ASIC: 13 May 2016 Opening Date for Offers: 13 May 2016 Closing Date for Offers: 14 June 2016 Dispatch of holding statements: 28 June 2016 Expected date for Shares to be reinstated to trading on ASX: 5 July 2016 The above dates are indicative only and may change without notice.	"Key Offer Details"
What rights and liabilities attach to the Shares being offered?	All Shares issued under the Offer will rank equally in all respects with existing Shares on issue (on a post-Consolidation basis). The rights and liabilities attaching to the Shares are described in Section 11.1.	Sections 1 and 11.1
Is the Offer underwritten?	No, the Offer is not underwritten.	-
Who is the lead manager to the Offer?	The Company has appointed Argonaut (AFSL: 274 099) to act as lead manager to the Offer. The Lead Manager will receive capital raising and management fees in connection with the Offer which are payable on completion of the Offer. The Lead Manager will also receive the Advisor Options upon completion of the Offer.	Sections 2.14 and 10.3(d)
Will the Shares issued under the Offers be listed?	The Company will apply to ASX no later than 7 days from the date of this Prospectus for official quotation of the Shares on the ASX under the new code, "BOT".	Important Information
What are the tax implications of investing in Shares under the Offer?	The tax consequences of any investment in Shares will depend upon your particular circumstances. Prospective investors should obtain their own tax advice before deciding to invest.	Section 2.19
What is the Company's dividend policy?	The Company does not expect to pay dividends in the near future as its focus will primarily be on using cash reserves to grow and develop the Merged Group's business.	Section 5.4

<table>
<tr><th>Topic</th><th>Summary</th><th>More information</th></tr>
<tr><td></td><td>Any future determination as to the payment of dividends by the Merged Group will be at the discretion of the Directors and will depend upon matters such as the availability of distributable earnings, the operating results and financial condition of the Merged Group, future capital requirements, general business and other factors considered relevant by the Directors. No assurances are given in relation to the payment of dividends, or that any dividends may attach franking credits.</td><td></td></tr>
<tr><td>How do I apply for Shares under the Offer?</td><td>Applications for Shares under the Offer must be made by completing the Application Form and, for the Offer, must be accompanied by a cheque in Australian dollars for the full amount of the application being the number of Shares applied for multiplied by $0.02 per Share. Cheques must be made payable to "Bone Medical Limited" and should be crossed "Not Negotiable".

Completed Application Forms and accompanying cheques must be received by the Company before 5.00pm WST on the Closing Date by either being delivered to, or posted to, the following address:

<table><tr><th>By Hand</th><th>By Post</th></tr><tr><td>Bone Medical Limited
c/- Automic Registry Services
Suite 1a, Level 1
7 Ventnor Avenue
West Perth WA 6005</td><td>Bone Medical Limited
c/- Automic Registry Services
PO Box 223
West Perth WA 6872</td></tr></table>
Applicants are urged to lodge their Application Forms as soon as possible as the Offer may close early without notice.</td><td>Section 2.10</td></tr>
<tr><td>When will I receive confirmation that my application has been successful?</td><td>It is expected that holding statements will be sent to successful Applicants by post on or about 28 June 2016.</td><td>Section 2.10</td></tr>
<tr><td>How can I find out more about the Prospectus or the Offer?</td><td>Questions relating to the Offer and applications for Shares can be directed to the Company on +61 8 9482 0580.</td><td>Section 2.21</td></tr>
<tr><td colspan="3">Miscellaneous</td></tr>
<tr><td>What material contracts are the Company or Botanix</td><td>The Company is party to the following material contracts:
(a) Acquisition Agreement;
(b) consultancy agreements;</td><td>Section 10</td></tr>
</table>

Topic	Summary	More information
Pharmaceuticals a party to?	(c) Lead Manager Mandate; and (d) Indemnity Deeds. Botanix Pharmaceuticals is party to the following material contracts: (a) the Permetrex™ Licence Agreement; (b) the Sharp Clinical Agreement; and (c) consulting agreements.	
Will any Shares issued by the Company be subject to escrow?	No Shares issued under the Offer will be subject to escrow. The Consideration Shares issued to the Botanix Vendors will be classified by ASX as restricted securities and will be required to be held in escrow for up to 24 months from the date of reinstatement.	Section 2.13

1. Transaction Overview

1.1 Botanix Pharmaceuticals Acquisition

On 21 March 2016, the Company announced that it had agreed to acquire the entire issued capital of Botanix Pharmaceuticals, Inc., a Philadelphia based Delaware incorporated company which holds confidential information and intellectual property interests pertaining to the development of innovative and differentiated medical dermatology products.

The Acquisition is proposed to be effected by means of an all-scrip offer by the Company to acquire all of the shares held in Botanix Pharmaceuticals on the basis set out in the table below.

Consideration	Consideration ratio
153,060,000 Shares	34.44 Shares for every 1 Botanix Pharmaceuticals Share held.

All references to Shares in this Prospectus are on the basis that the Consolidation has taken effect, unless expressly stated otherwise.

Refer to Section 10.3(a) for a summary of the share sale agreement between the Company, Botanix Pharmaceuticals and the Botanix Vendors in respect of the Acquisition (**Acquisition Agreement**).

The valuation and number of Consideration Shares to be issued to the Botanix Vendors was determined through arm's length negotiations between the Existing Directors of the Company at the date of the Prospectus and the board of Botanix Pharmaceuticals.

In determining the purchase price for Botanix Pharmaceuticals, the Existing Directors took into account the following considerations:

(a) the Directors reviewed the market for prescription dermatology, which is a significant and growing global market. Despite this significant market size, there are a number of unmet needs for therapy treatments, particularly to treat acne, psoriasis and atopic dermatitis conditions;

(b) the Directors also reviewed the business of Botanix Pharmaceuticals, the scientific data concerning the potential of the active pharmaceutical ingredient cannabidiol to treat serious skin disease, its exclusive access to use the Permetrex™ technology, its access to a pure GMP synthetic source of cannabidiol, and the experience and skills of the management team and consultants to Botanix Pharmaceuticals, and have formed the view that Botanix Pharmaceuticals' product offering, under the direction of the Botanix Pharmaceuticals team, may have a competitive advantage in the sector;

(c) the potential value of the product candidates being developed by Botanix Pharmaceuticals, the time it would take to generate human clinical data regarding those products, the risk associated with such trials and the potential to gain approval for and commercialise such products, and have formed the view that Botanix Pharmaceuticals' product offering, under the direction of the Botanix Pharmaceuticals team, may generate substantial value;

(d) the amount of capital it would take to reach a value inflection point for the Botanix Pharmaceuticals' business associated with the generation of human

clinical data regarding one or more of Botanix Pharmaceuticals' products, currently under development; and

(e) Botanix Vendors and key management are tied to the performance of the Merged Group given that the Acquisition is an "all scrip" transaction.

Taking these factors into account, the Directors determined that the Acquisition, should it close, may be price accretive to existing Shareholders.

As with the acquisition of any business or asset that does not have a meaningful track record of revenue and profitability, there is not always a good valuation methodology available when determining the purchase price. The Company was required to take into account qualitative factors, such as those set out above in coming to a decision on the purchase price for Botanix Pharmaceuticals.

Completion of the Acquisition is subject to a number of conditions, including the following, which may only be waived by the party in favour of whom the condition is given or by both parties by mutual agreement:

(a) the Company raising the minimum subscription under the Offer, being $3,000,000; and

(b) ASX approving the Company's re-compliance with the admission requirements under Chapters 1 and 2 of the Listing Rules.

1.2 Suspension and reinstatement on ASX

The Company's most recent primary activity was the development of treatments for bone and joint diseases and degeneration, in particular osteoporosis and arthritis.

In November 2014, the Company terminated its licence and research agreements with Proxima Group, the inventor and patent holder of the treatments for bone and joint diseases and degeneration. Following the termination of the licence and research agreements with the Proxima Group, the Company has not had any principal business activity and has focused on identifying new opportunities with the objective of increasing Shareholder value.

ASX has advised that as the Company currently has no principal activities, the change in the nature and scale of the Company's activities as a result of the Acquisition requires:

(a) the approval of Shareholders; and

(b) the Company to re-comply with the admission requirements set out in Chapters 1 and 2 of the Listing Rules.

The Company has obtained waivers from Listing Rule 1.1 condition 11 and Listing Rule 2.1 condition 2 in connection with the re-compliance.

Shareholder approval for the change in the nature and scale of the Company's activities will be sought at the General Meeting to be held on 14 June 2016.

The Company's Securities will be suspended from trading from the time of the General Meeting and will not be reinstated until the Company has satisfied the conditions to the Offers, including re-compliance with Chapters 1 and 2 of the Listing Rules.

It is expected that the conduct of the Offer pursuant to this Prospectus and Completion of the Acquisition will enable the Company to satisfy the requirements of Chapters 1 and 2 of the Listing Rules.

Applicants should be aware that ASX will not re-admit or admit any Shares issued under the Offer to Official Quotation until the Company re-complies with Chapters 1 and 2 of the Listing Rules to the satisfaction of ASX.

There is a risk that the Company may not be able to meet the requirements for re-quotation on the ASX. In the event the conditions to the Offers are not satisfied or the Company does not receive conditional approval for re-quotation on ASX then the Company will not proceed with the Offers and will repay all Application Monies received.

The Company will apply to ASX, no later than seven days from the date of this Prospectus, for ASX to grant official quotation of the Shares issued pursuant to this Prospectus. If the Shares are not admitted to quotation within three months after the date of this Prospectus, no Shares will be issued and Application Monies will be refunded in full without interest in accordance with the Corporations Act.

Neither ASX nor ASIC take responsibility for the contents of this Prospectus. The fact that ASX may grant official quotation to the Shares issued pursuant to this Prospectus is not to be taken in any way as an indication by ASX as to the merits of the Company or the Shares.

1.3 General Meeting

At the General Meeting to be held on 14 June 2016, the Company will seek Shareholder approval of the following Resolutions in relation to the Acquisition and the Offers:

(a) **Change in nature and scale**: The Company changing the nature and scale of its activities as a result of the Acquisition. Upon Completion of the Acquisition, the Company will effectively change to a pharmaceutical products development company.

(b) **Issue of Consideration Shares to Botanix Vendors:** The Company issuing 153,060,000 Consideration Shares to the Botanix Vendors in consideration for the Acquisition of 100% of the shares of Botanix Pharmaceuticals.

(c) **Offer:** The Company issuing up to 175,000,000 Shares to the public under this Prospectus. The Company is also seeking Shareholder approval for Messrs John Hannaford and Phillip Wingate, part of the Existing Directors, to participate in the Offer to an aggregate maximum of 3,000,000 Shares.

(d) **Change of name:** The Company changing its name from "Bone Medical Limited" to "Botanix Pharmaceuticals Limited", with effect from the date that ASIC alters the details of the Company's registration.

(e) **Consolidation:** The Company consolidating its Shares on the basis of every three and one third ($3\ ^{1}/_{3}$) Shares be consolidated into one (1) Share.

(f) **Election of Proposed Directors:** The election of Mr Matthew Callahan, Mr Graham Griffiths and Dr William Bosch as Directors of the Company.

(g) **Employee incentive plan:** Approval of a new employee securities incentive plan.

(h) **Advisor Options:** Approval to issue 13,000,000 Advisor Options to the Lead Manager.

2. Details of the Offers

2.1 Offer

By this Prospectus, pursuant to the Offer the Company offers 150,000,000 Shares at an offer price of $0.02 per Share to raise funds of $3,000,000 (before costs). Oversubscriptions of up to a further 25,000,000 Shares at an issue price of $0.02 per Share to raise up to a further $500,000 (before costs) may be accepted at the discretion of the Directors (**Oversubscriptions**).

The Shares to be issued pursuant to the Offer are of the same class and will rank equally in all respects with the existing Shares in the Company. The rights and liabilities attaching to the Shares are further described in Section 11.1.

2.2 Minimum Subscription

The minimum level of subscription for the Offer is 150,000,000 Shares to raise $3,000,000. No Shares will be issued until the minimum subscription has been received. If the minimum subscription of the Offer has not been achieved within four months after the date of this Prospectus (or such period as varied by ASIC), the Company will not issue any Shares under this Prospectus and will repay all Application Monies in accordance with the Corporations Act.

2.3 Advisor Options Offer

The Prospectus also includes the Advisor Options Offer, under which the Company offers 13,000,000 Advisor Options, each with an exercise price of $0.03 per Share and an expiry date 3 years after the date of issue, to the Lead Manager and/or its nominees at an issue price of $0.00001 per Advisor Option.

A summary of the terms of the Advisor Options is set out in Section 11.2.

Applications for Advisor Options under the Advisor Options Offer may only be made by the Lead Manager and/or its nominees. A personalised application form in relation to the Advisor Options Offer will be issued to the Lead Manager together with a copy of this Prospectus.

2.4 Conditional Offers

The Offers under this Prospectus are conditional upon the following events occurring:

(a) the Company raising $3,000,000, under the Offer (refer to Section 2.1);

(b) Shareholders approving the Acquisition Resolutions to be put to them at the General Meeting to be held on 14 June 2016 (refer to Section 1.3);

(c) Completion of the Acquisition (refer to Section 10.3(a));

(d) to the extent required by ASX or the Listing Rules, each person entering into a restriction agreement imposing such restrictions on trading of the Consideration Shares and any other securities to be issued as mandated by the Listing Rules; and

(e) the Company obtaining all regulatory approvals, including ASX providing the Company with a list of conditions which, when satisfied, will result in ASX reinstating the Shares to quotation on ASX upon the satisfaction of Chapters 1 and 2 of the Listing Rules.

If these conditions are not satisfied then the Offers will not proceed and the Company will repay all Application Monies in accordance with the Corporations Act.

2.5 Purpose of the Offers

The purposes of the Offers are to:

(a) meet the requirement that the Company re-complies with the ASX's admission requirements in accordance with Chapters 1 and 2 of the Listing Rules;

(b) provide funding for the purposes outlined in Section 2.7;

(c) provide the Merged Group with access to equity capital markets for future funding needs; and

(d) enhance the public and financial profile of Botanix Pharmaceuticals and the Company.

2.6 Funding

The funding for the Merged Group for the two years following re-quotation of its Shares to the Official List of ASX will be met by the offer of Shares under the Offer and by the Company's existing cash reserves (see Section 2.7 for further details). As and when further funds are required, either for existing or future developments, the Merged Group will consider both raising additional capital from the issue of securities and/or from debt funding.

2.7 Proposed use of funds

The Company intends to use the funds raised under the Offer, together with existing cash reserves post-Acquisition, in the next two years following the reinstatement of the Company's Securities to quotation on the Official List of ASX as follows:

Funds available	**Amount ($)**	**%**
Existing cash reserves of the Company[1]	$540,000	15%
Funds raised from the Offer	$3,000,000	85%
Allocation of funds	**Amount ($)**	**%**
Expenses of the Offers (including capital raising fees)	$290,000	8%
Repayment of loans	$250,000	7%
Clinical trial manufacturing and testing	$930,000	26%
Initial clinical trials for BTX1503	$770,000	22%
Manufacturing and preparation for Phase 2 of the clinical trial	$160,000	4%
Salaries and related costs	$585,000	17%
General working capital, including corporate and administrative costs[2,3]	$555,000	16%
Total	**$3,540,000**	**100%**

Notes:

1. These funds represent existing cash held by the Company at or around the date of this Prospectus. The Company expects to incur costs within the ordinary course of its business, which will diminish this amount prior to Completion.
2. General working capital will be utilised by the Company to pay for the corporate and administration costs of the Company generally, cost overruns in forecast expenditures (if any), and additional testing and trial expenditures.
3. Any additional funds raised from Oversubscriptions will be applied towards development of pipeline products and working capital.

The above table is a statement of current intentions as at the date of this Prospectus. Investors should note that, as with any budget, the allocation of funds set out in the above table may change depending on a number of factors, including the outcome of operational and development activities, regulatory developments and market and general economic conditions. In light of this, the Board reserves the right to alter the way the funds are applied.

The Board is satisfied that upon completion of the Offers, the Company will have sufficient working capital to meet its stated objectives.

The use of further equity funding or Share placements will be considered by the Board, where it is appropriate to accelerate a specific project.

It is possible that future acquisitions that may be contemplated may exceed the current or projected financial resources of the Company and it is expected that these

acquisitions would be funded by project finance and/or equity issues (subject to any required Shareholder approvals).

2.8 Capital structure

The proposed pro forma capital structure of the Company following completion of the Offers and the Acquisition is as follows:

	Shares
Shares on issue prior to the Offers	77,338,971
Consideration Shares to be issued to Botanix Vendors	153,060,000
Shares to be issued under the Offer (excluding Oversubscriptions)	150,000,000
Total Shares on issue following Completion of the Acquisition and re-compliance with the Listing Rules (excluding Oversubscriptions)	380,398,971
Total Shares on issue following Completion of the Acquisition and re-compliance with the Listing Rules (including the maximum issue of Oversubscriptions)	405,398,971
	Options
Options on issue prior to the Offers	9,541,017
Options to be issued to the Lead Manager and/or nominees	13,000,000
Total Options on issue following Completion of the Acquisition and re-compliance with the Listing Rules	**22,541,017**

Notes:

1. All of the figures in the above tables are on a post-Consolidation basis.
2. The above table also assumes that all Resolutions are passed at the General Meeting.

2.9 No Underwriting

The Offer is not underwritten.

2.10 Applications

Applications for Shares under the Offer can only be made using the Application Form attached to or accompanying this Prospectus. The Application Form must be completed in accordance with the instructions set out on the back of the form.

Applications under the Offer must be for a minimum of 100,000 Shares ($2,000) and then in increments of 25,000 Shares ($500). No brokerage, stamp duty or other costs are payable by the Applicants. Cheques must be made payable to "Bone Medical Limited" and should be crossed "Not Negotiable". All Application Monies will be paid into a trust account.

Completed Application Forms and accompanying cheques must be received by the Company before 5.00pm WST on the Closing Date by either being delivered to, or posted to, the following address:

By Hand	By Post
Bone Medical Limited c/- Automic Registry Services Suite 1a, Level 1 7 Ventnor Avenue West Perth WA 6005	Bone Medical Limited c/- Automic Registry Services PO Box 223 West Perth WA 6872

Applicants are urged to lodge their Application Forms as soon as possible as the Offer may close early without notice.

An original, completed and lodged Application Form for Shares together with a cheque for the Application Monies, constitutes a binding and irrevocable offer to subscribe for the number of Shares specified in the Application Form. The Application Form does not need to be signed to be valid. If the Application Form is not completed correctly or if the accompanying payment is for the wrong amount, it may be treated by the Company as valid. The Directors' decision as to whether to treat such an application as valid and how to construe amend or complete the Application Form is final however an Applicant will not be treated as having applied for more Shares than is indicated by the amount of the cheque for the Application Monies.

It is the responsibility of Applicants outside Australia to obtain all necessary approvals for the allotment and issue of Shares pursuant to this Prospectus. The return of a completed Application Form will be taken by the Company to constitute a representation and warranty by the Applicant that all relevant approvals have been obtained.

2.11 Allocation and allotment of Shares

The Directors reserve the right to reject any application or to allot a lesser number of Shares than that applied for. If the number of Shares allocated is less than that applied for, or no allotment is made, the surplus Application Monies will be promptly refunded without interest.

Subject to ASX granting approval for quotation of the Shares, the allotment of Shares will occur as soon as practicable after the Offer closes. Holding statements will be dispatched as required by ASX. It is the responsibility of the Applicants to determine their allocation prior to trading in the Shares.

Applicants who sell the Shares before they receive their holding statement will do so at their own risk.

2.12 Application Monies to be held in trust

The Application Monies for Shares to be issued pursuant to the Offer will be held in a separate bank account on behalf of the Applicants until the Shares are allotted. If the Shares to be issued under this Prospectus are not admitted to quotation within a period of three months from the date of this Prospectus, the Application Monies will be refunded in full without interest, and any Shares issued will be deemed to be void. All interest earned on Application Monies (including those which do not result in the issue of Shares) will be retained by the Company.

2.13 Escrow arrangements

The Shares offered under the Offer will not be subject to any escrow restrictions.

The Shares issued to the Botanix Vendors as Consideration Shares will be subject to escrow restrictions. Prior to the Company's Shares being reinstated to trading on the ASX, the Company will enter into escrow agreements with the recipients of the restricted securities, in accordance with Chapter 9 of the Listing Rules, and the Company will announce to ASX full details (quantity and duration) of the Shares to be held in escrow.

2.14 Lead Manager

The Company has appointed Argonaut to act as lead manager to the Offer.

The Lead Manager will receive capital raising and management fees totalling 5% of the total amount raised under the Offer, and the right to subscribe for up to 13,000,000 Advisor Options at an issue price of $0.00001 per Advisor Option. Refer to 10.3(d) for a summary of the terms of the Lead Manager Mandate.

2.15 Chess and issuer sponsorship

The Company participates in CHESS. All trading on the ASX in existing Shares is, and in new Shares will be, settled through CHESS. ASX Settlement, a wholly-owned subsidiary of the ASX, operates CHESS in accordance with the Listing Rules and the ASX Settlement Operating Rules. On behalf of the Company, the Share Registry operates an electronic issuer sponsored sub-register and an electronic CHESS sub-register. The two sub-registers together make up the Company's principal register of securities.

Under CHESS, the Company does not issue certificates to Shareholders. Rather, holding statements (similar to bank statements) will be sent to Shareholders as soon as practicable after allotment. Holding statements will be sent either by CHESS (for Shareholders who elect to hold Shares on the CHESS sub-register) or by the Company's Share Registry (for Shareholders who elect to hold their Shares on the issuer sponsored sub-register). The statements will set out the number of existing Shares (where applicable) and the number of new Shares allotted under this Prospectus and provide details of a Shareholder's Holder Identification Number (for Shareholders who elect to hold Shares on the CHESS sub-register) or Shareholder Reference Number (for Shareholders who elect to hold their Shares on the issuer sponsored sub-register). Updated holding statements will also be sent to each Shareholder at the end of each month in which there is a transaction on their holding, as required by the Listing Rules.

2.16 Risks

As with any share investment, there are risks associated with investing in the Company. The principal risks that could affect the financial and market performance of the Company are detailed in Section 7 of this Prospectus. The Shares on offer under this Prospectus should be considered speculative. Accordingly, before deciding to invest in the Company, Applicants should read this Prospectus in its entirety and should consider all factors in light of their individual circumstances and seek appropriate professional advice.

2.17 Overseas investors

An Offer made pursuant to this Prospectus is not made to persons or in places which would not be lawful to make the Offer. No action has been taken to register the Offers under this Prospectus or otherwise permit the Offers to be made in any jurisdiction outside Australia.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law in those jurisdictions and therefore persons who come into possession of this

Prospectus should seek advice on and observe any such restrictions. Failure to comply with such restrictions may constitute a violation of applicable securities laws.

Applicants who are resident in countries other than Australia should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed in respect of the Offers.

2.18 Privacy disclosure

Persons who apply for Shares pursuant to this Prospectus are asked to provide personal information to the Company, either directly or through the Share Registry. The Company and the Share Registry collect, hold and use that personal information to assess applications for Shares, to provide facilities and services to Security holders, and to carry out various administrative functions. Access to the information collected may be provided to the Company's agents and service providers and to ASX, ASIC and other regulatory bodies on the basis that they deal with such information in accordance with the relevant privacy laws. If the information requested is not supplied, applications for Shares will not be processed. In accordance with privacy laws, information collected in relation to specific Security holders can be obtained by that Security holder through contacting the Company or the Share Registry.

2.19 Taxation

It is the responsibility of all persons to satisfy themselves of the particular taxation treatment that applies to them in relation to the Offers, by consulting their own professional tax advisers. Neither the Company nor any of its Directors or officers accepts any liability or responsibility in respect of the taxation consequences of the matters referred to above.

2.20 Delaware law "merger"

The Acquisition is being implemented by way of a Delaware law "merger". For the purposes of this merger process, the Company has incorporated a Delaware based subsidiary named Bone Merger, Inc. (**US Subsidiary**).

In order that the United States-based Botanix Vendor is entitled to the equivalent of "roll over relief" in the United States and to effect the merger in accordance with Delaware law, the Company will issue the Consideration Shares to the US Subsidiary (as the nominee of the Botanix Vendors), and then immediately following such issue, Botanix Pharmaceuticals and the US Subsidiary will "merge". As a result of this, Botanix Pharmaceuticals will continue to exist (as a wholly owned subsidiary of the Company), the US Subsidiary will cease to exist, and the Consideration Shares will immediately be distributed to the Botanix Vendors.

Section 259C(1) of the Corporations Act provides that an issue of shares of a company to an entity it controls is void except in certain circumstances, none of which are presently applicable. Section 259C(2) of the Corporations Act specifically allows ASIC to exempt a company from the operation of section 259C of the Corporations Act. As the "merger" process will require the Company to issue the Consideration Shares to US Subsidiary (being a wholly owned subsidiary), the Company has applied to ASIC for relief pursuant to section 259C(2) of the Corporations Act. The US Subsidiary will only hold the Consideration Shares for approximately one day as part of the merger process.

Section 606(1) of the Corporations Act prohibits a person from acquiring a relevant interest in issued voted shares in a listed company if the person acquiring the securities or someone else's voting power in the company increases to more than 20%. Section

655A of the Corporations Act allows ASIC to exempt a company from the operation of a provision of Chapter 6 (which includes section 606(1) of the Corporations Act). As the Consideration Shares in aggregate will comprise over 20% of the Shares then on issue, the Company has applied to ASIC for relief pursuant to section 655A of the Corporations Act. It is noted that none of the Botanix Vendors are considered "associates", and accordingly Shareholder approval for the purposes of item 7 of section 611 of the Corporations Act is not being sought at the General Meeting.

Section 671B of the Corporations Act requires a person to give certain information to a listed company and each relevant market operator if the person begins to have, or ceases to have, a substantial holding in the company. Section 673(1)(a) of the Corporations Act allows ASIC to exempt a person from the operation of a provision of Chapter 6C of the Corporations Act (which includes section 671B of the Corporations Act). As US Subsidiary will hold over 5% of the Shares of the Company, the Company has applied to ASIC for relief such that US Subsidiary is not required to lodge substantial holder notices.

Completion of the Acquisition Agreement in its current form is effectively conditional on the Company obtaining this relief from ASIC, due to the condition precedent requiring the parties to obtain all necessary regulatory approvals. Accordingly, if the Company is unable to obtain the ASIC relief then the Acquisition Agreement may be required to be restructured and the Acquisition will not proceed in its current form.

2.21 Enquiries

This is an important document and should be read in its entirety. Investors should consult with their professional advisers before deciding whether to apply for Shares under this Prospectus. Any investment in the Company under this Prospectus should be considered highly speculative.

Questions relating to the Offers and the completion of an Application Form can be directed to the Company on +61 8 9482 0580.

3. Overview of the Company, Botanix Pharmaceuticals and the Merged Group

3.1 The Company

The Company, Bone Medical Limited, is an Australian company that was admitted to the ASX official list on 24 January 1985. The Company's most recent primary activity has been the development of treatments for bone and joint diseases and degeneration, in particular osteoporosis and arthritis.

In November 2014, the Company terminated its licence and research agreements with Proxima Group, the inventor and patent holder of the treatments for bone and joint diseases and degeneration. Following the termination of the licence and research agreements with Proxima Group, the Company has focused on identifying new opportunities with the objective of increasing Shareholder value.

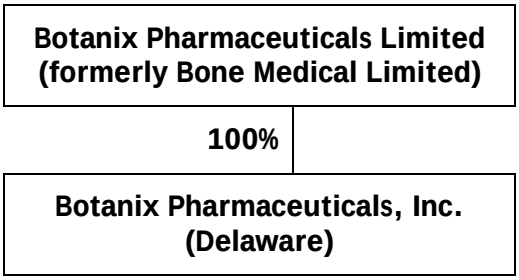
3.2 Acquisition of Botanix Pharmaceuticals

On 21 March 2016, the Company announced to ASX that it had entered into a conditional binding term sheet with Botanix Pharmaceuticals and the Botanix Vendors to acquire all the issued capital of Botanix Pharmaceuticals.

On 15 April 2016, the Company, Botanix Pharmaceuticals and the Botanix Vendors entered into the Acquisition Agreement, a definitive, full form share sale agreement which replaced the initial term sheet. The Acquisition Agreement is on terms materially the same as the term sheet.

3.3 Group structure

If the Acquisition reaches Completion, the diagram below summarises the Merged Group ownership structure:



The Company also owns 100% of the shares in Bone Limited incorporated in Jersey, Channel Islands. It is the intention of the Company to deregister this subsidiary upon Completion of the Acquisition.

3.4 Botanix Pharmaceuticals

Botanix Pharmaceuticals is a specialty pharmaceutical company based in Philadelphia, Pennsylvania which is focused on bringing innovative and differentiated medical dermatology products to dermatologists and their patients.

Botanix Pharmaceuticals is developing new prescription products to treat serious skin diseases including acne, psoriasis and atopic dermatitis, by utilising a novel drug delivery technology (known as Permetrex™) to more effectively deliver a novel pharmaceutical ingredient directly into the affected skin.

Botanix Pharmaceuticals' first products, which are currently under development utilise a pure and very high quality manufactured synthetic form of a chemical also found in natural extracts known as *2-[(1R,6R)-6-isopropenyl-3-methylcyclohex-2-en-1-yl]-5-pentylbenzene-1,3-diol*. Unapproved natural extract forms of this molecule (known as cannabidiol) have been proposed as treatments for a range of diseases and are currently being studied in numerous late stage clinical trials conducted by other pharmaceutical companies, to treat epilepsy, pain and arthritis (amongst other indications). To the Existing Directors and Proposed Directors' knowledge, no well-controlled human clinical studies have ever been conducted with cannabidiol to treat skin disease, and no products have been approved to treat skin disease using cannabidiol, despite significant scientific support for the drug's mechanism of action in skin disease.

It is intended that the Merged Group will be the first company to study synthetic cannabidiol in well controlled human studies and then if those studies are successful, to secure regulatory and marketing approval for its treatments for serious skin diseases.

3.5 Key personnel of Botanix Pharmaceuticals

Botanix Pharmaceuticals is led by Mr Graham Griffiths, Mr Matthew Callahan and Dr William Bosch.

The Company has executed consultancy agreements and director appointment agreements with each of the following persons:

(a) Mr Graham Griffiths as Chairman;

(a) Mr Matthew Callahan as an Executive Director; and

(b) Dr William Bosch as an Executive Director and Chief Scientific Adviser,

on the key terms summarised in Section 10.3(b) and 10.3(c). These consultancy agreements and director appointment agreements are conditional on and will take effect on and from Completion.

See Section 9.3 for further information on the proposed Directors.

Along with consultant Dr Cooper, the Botanix Pharmaceuticals team has unique experience in the drug delivery industry, having been closely involved in developing and/or gaining approval for more than 10 combined FDA approvals for products that utilise novel drug delivery systems between them. Mr Callahan, Dr Bosch and Dr Cooper have previously worked with each other in other companies and have access to a broader network of knowledgeable and experienced executives and consultants that will assist in developing, testing and gaining approval for Botanix Pharmaceuticals' product candidates.

Botanix Pharmaceuticals has also engaged Emeritus Professor James Leyden from the University of Pennsylvania and Professor Diane Thiboutot from Penn State University as consultants to help guide the development of Botanix Pharmaceuticals' product candidates. These individuals are two of the leading acne researchers and clinicians in the United States and have been involved in the development of numerous skin disease products, both from basic research through to clinical trials and patient treatment. A summary of the consultancy agreements is in Section 10.2(c) and 10.2(d).

3.6 Business model and development and commercialisation objectives

The Merged Group's focus will be on the development and commercialisation of Botanix Pharmaceuticals' portfolio of medical dermatology products which aim to address significant unmet patient needs. Each of the products leverages the Botanix Pharmaceuticals team's long experience in developing and gaining FDA approval for pharmaceutical products, and the Permetrex™ technology that improves the delivery of an active pharmaceutical ingredients directly into the affected skin.

Botanix Pharmaceuticals does not currently generate revenue.

The Merged Group intends to derive revenue from the following possible sources, should its business model be successful and following the launch of its first medical dermatology product:

(a) licence milestones and royalties from agreements to license or partner its portfolio of pipeline products; and

(b) sales revenues from the commercialisation of approved medical dermatology products.

3.7 Key dependencies of the business model

The key factors that the Merged Group will depend on to meet its objectives are:

(a) the successful completion of the Offers;

(b) the successful Completion of the Acquisition;

(c) the successful development and regulatory approvals for the sale of Botanix Pharmaceuticals' first product, BTX1503;

(d) retaining the key personnel and consultants of Botanix Pharmaceuticals; and

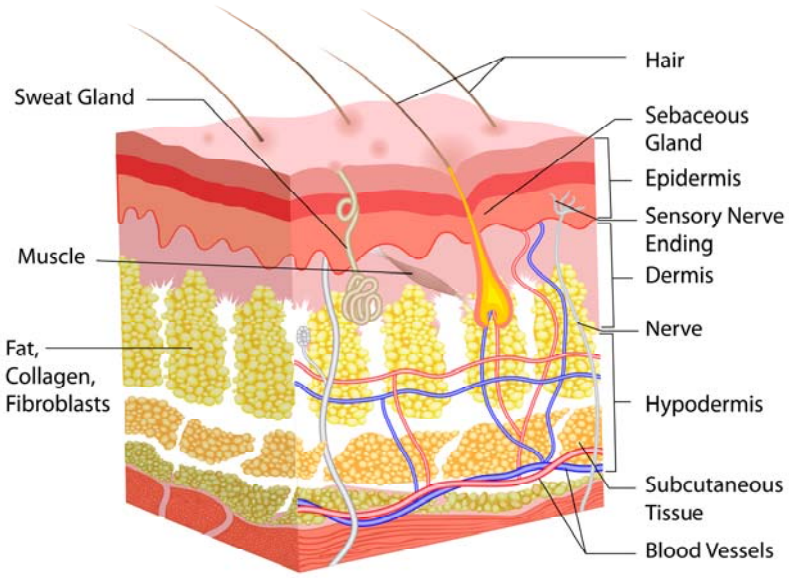
(e) the ability to protect the Merged Group's intellectual property.

3.8 Botanix Pharmaceuticals' development products

(a) **The endocannabinoid system of the skin**

The skin and its appendages establish a 'passive' physical and chemical barrier against constant environmental challenges from mechanical impacts and pressure, variations in temperature, micro-organisms, radiation and chemicals.

The skin and its components (such as hair follicles, sebaceous and sweat glands) also function as 'active' organs with well-defined neuronal networks and related functions, a wide-array of constantly remodelling non-neuronal cells and 'mini-organs', immunological machinery for inflammatory and immunological mechanisms, and the synthesis and release of numerous growth factors and hormones. These passive and active functions of the skin and its appendages are strongly dependent on life-long regeneration and rejuvenation of cutaneous non-neuronal cells and mini-organs. Collectively, proper operation of these mechanisms and constant renewal of many of the components of the skin, establish a solid base for physiological human skin 'homeostasis' or balance.



Graphic representation of skin structure

The products under development by Botanix Pharmaceuticals are focused on modulating the body's 'endocannabinoid system' of receptors which regulates skin function, growth and renewal. It is understood that cannabidiol may play a significant role in normalising unwanted skin growth, reducing excessive production of oils and reducing inflammation and infection, amongst other functions. Botanix Pharmaceuticals has explored whether endocannabinoid modulating drugs (such as synthetic cannabidiol) can be exploited in the management of common skin disorders such as acne, psoriasis and atopic dermatitis.

(b) **Synthetic cannabidiol – the active pharmaceutical ingredient used in Botanix Pharmaceuticals' development products**

Botanix Pharmaceuticals' products under development all use an active pharmaceutical ingredient *2-[(1R,6R)-6-isopropenyl-3-methylcyclohex-2-en-1-yl]-5-pentylbenzene-1,3-diol*. This chemical is a GMP manufactured synthetic analogue of a naturally derived compound, known as cannabidiol. Cannabidiol is a member of a broader family of compounds known as cannabinoids, which in turn, are a class of compounds originally derived from the *cannabis sativa* plant.

Synthetic cannabidiol is not psychoactive and it is understood that cannabidiol may successfully treat epilepsy, arthritis, pain and even Fragile X Syndrome. Interest in cannabidiol-based therapeutics has increased significantly in recent years, as published data has highlighted the potential efficacy and safety benefits of this compound. There are now more than 85 human clinical trials that have been completed, are underway or pending recruitment around the world that are studying cannabidiol in a range of diseases.

To the knowledge of the Existing Directors and Proposed Directors, no TGA or FDA regulated well-controlled human clinical studies have ever been conducted using cannabidiol to treat skin disease, and no cannabidiol containing pharmaceuticals have been approved to treat skin disease using cannabidiol, despite the molecule's scientific validation. Therefore, it is envisaged that the targeted manipulation of the endocannabinoid system - aiming to normalise the unwanted skin cell growth, sebum production and skin inflammation - might be beneficial in a multitude of human skin diseases.

However, many cannabidiol products currently in development have significant drawbacks and limitations due to:

(i) their botanical (plant-derived) nature; and

(ii) the fact that they are administered orally.

Naturally derived cannabidiol extracts create significant challenges for drug manufacturers because of the stringent quality controls required by regulatory agencies in pharmaceutical manufacturing and the inherent variability of the extraction and purification processes required to isolate cannabidiol at a consistent concentration, from the hundreds of chemicals in the cannabis plant. Extraction processes often involve high temperatures and dangerous chemicals, which may remain in the final drug substance mixture that is used in a final pharmaceutical product.

Also, despite its potential as an effective therapeutic, cannabidiol has very low oral bioavailability, meaning that very little of the drug is absorbed by the body if taken in tablet, capsule or other oral delivery forms. Due to the 'first pass effect' by the liver, only 6% of the cannabidiol that is consumed orally becomes available in the blood stream and even less finds its way into the organs in the skin.

For these reasons, Botanix Pharmaceuticals has identified a proprietary GMP quality synthetic form of cannabidiol for use in its clinical development programs. Synthetic cannabidiol provides an attractive alternative to existing cannabinoid therapies as it permits higher quality, more consistent manufacturing, greater scalability and more straightforward regulatory approval prospects over naturally extracted cannabidiol.

The drug substance or active pharmaceutical ingredient for Botanix Pharmaceuticals' products is currently manufactured by a custom chemical synthesis company. It is intended that the Merged Group will conduct Phase 1 and Phase 2 clinical trials using synthetic cannabidiol. As a result, the Merged Group will likely be subject to controlled substance laws and regulations from the TGA in Australia, the FDA in the United States, as well as other regulatory agencies in other countries where the Merged Group chooses to develop, manufacture or commercialise products in the future.

(c) **Permetrex™**

Despite its potential as an effective therapeutic, as outlined above, cannabidiol has very low oral bioavailability, meaning that very little of the drug is absorbed by the body if taken in tablet, capsule or other oral delivery forms. As a result, development of new therapies containing the active pharmaceutical ingredient cannabidiol is challenging.

One possible solution to the challenges of achieving sufficient levels of the drug in the body, is to deliver it transdermally, or directly through the skin to the target organs in the layers of the skin (or even into systemic circulation). Transdermal delivery avoids the 'first-pass' effect of liver metabolism and potentially enables lower dosage levels of active pharmaceutical ingredients to be rapidly and reliably absorbed with high bioavailability.

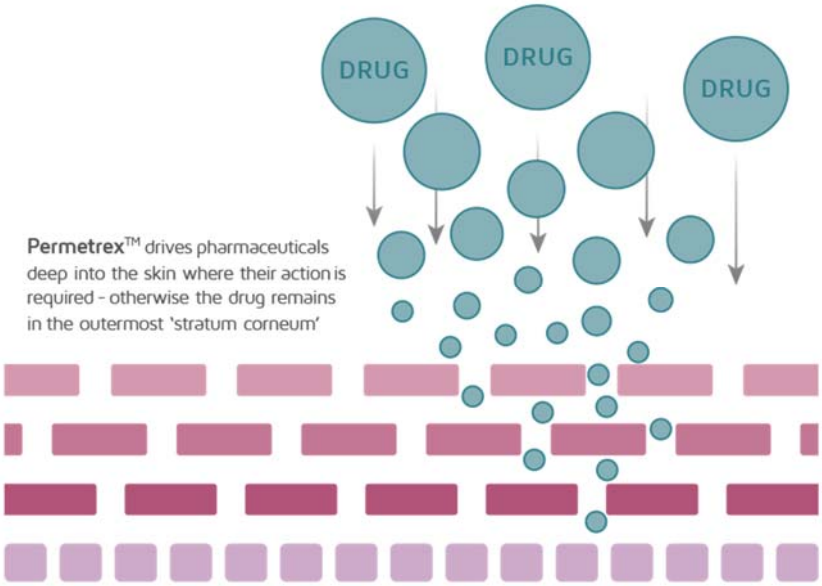
Dr Cooper, a consultant of Botanix Pharmaceuticals, has developed a drug delivery technology known as Permetrex™, which is designed to deliver pharmaceuticals into and through the skin more effectively than the many

skin penetrating technologies available today. Permetrex™ is differentiated from other approaches in that:

(i) it does not utilise chemicals which have a tendency to irritate the skin and are considered undesirable for diseases such as acne, psoriasis and atopic dermatitis;

(ii) it generates substantial kinetic energy when applied to the skin, which facilitates the rapid delivery of active pharmaceutical ingredients into the skin; and

(iii) it can accommodate other chemicals which can selectively leave parts of the formulation on the skin in a protective coating, for extended absorption and/or protection of the skin.



Graphic representation of Permetrex™ skin delivery system

The use of Permetrex™ is viewed as a significant competitive advantage as it solves a number of the challenges of delivering cannabidiol efficiently to the organs in the skin that are targeted for the treatment of various skin diseases.

Dr Cooper has licensed the use of Permetrex™ to Botanix Pharmaceuticals pursuant to the Permetrex™ Licence Agreement, which provides Botanix Pharmaceuticals with exclusive rights to utilise Permetrex™ for the skin delivery of all cannabinoids, including cannabidiol.

A summary of the key terms of the Permetrex™ Licence Agreement is contained in Section 10.2(a).

(d) **BTX1503 – the first proposed Botanix Pharmaceuticals product for acne**

Acne lesions are believed to result from an interaction of four primary pathogenic factors:

(i) the excessive production of sebum or lipids by sebaceous glands in the skin;

(ii) hyper-proliferation of sebocytes (highly specialised, sebum-producing epithelial cells) that contribute to clogging of pores through which sebum is normally released to the skin surface;

(iii) colonisation of the area in and around the sebaceous gland by bacteria; and

(iv) inflammation, often associated with colonisation by bacteria and their breakdown of sebum into irritating breakdown products.

In the Existing Directors and Proposed Directors' view, no topical treatments are currently available which target all of the above pathogenic factors. While systemic therapies (such as isotretinoin) may inhibit sebum production, their use is limited by significant systemic side effects. Also, an unmet need remains for effective therapies that are not associated with antibiotic resistance or treatment-limiting side effects, particularly therapies with novel mechanisms of action. As a result, Botanix Pharmaceuticals believes there is an unmet need for a topical treatment that targets the four primary pathogenic factors.

Acne (RX) Landscape	BTX1503	Clindamycin	Tretinoin	Adapalene	Minocycline	Erythromycin	Isotretinoin
Reduces Sebum	✓	✗	✗	✗	✗	✗	✓
Affects Keratinocytes	✓	✗	✓	✓	✗	✗	✓
Anti-inflammatory	✓	✗	✓	✓	✗	✗	✓
Anti-microbial	✓	✓	✗	✗	✓	✓	✓
Avoids resistance	✓	✗	✓	✓	✗	✗	✓
Topical	✓	✗	✓	✓	✗	✗	✗
Minimal side effects	✓	✗	✓	✓	✗	✓	✗

Overview of dominant acne treatments with potential activity of BTX1503 forecast, subject to successful development and approvals

Botanix Pharmaceuticals' proposed BTX1530 product aims to address these unmet needs.

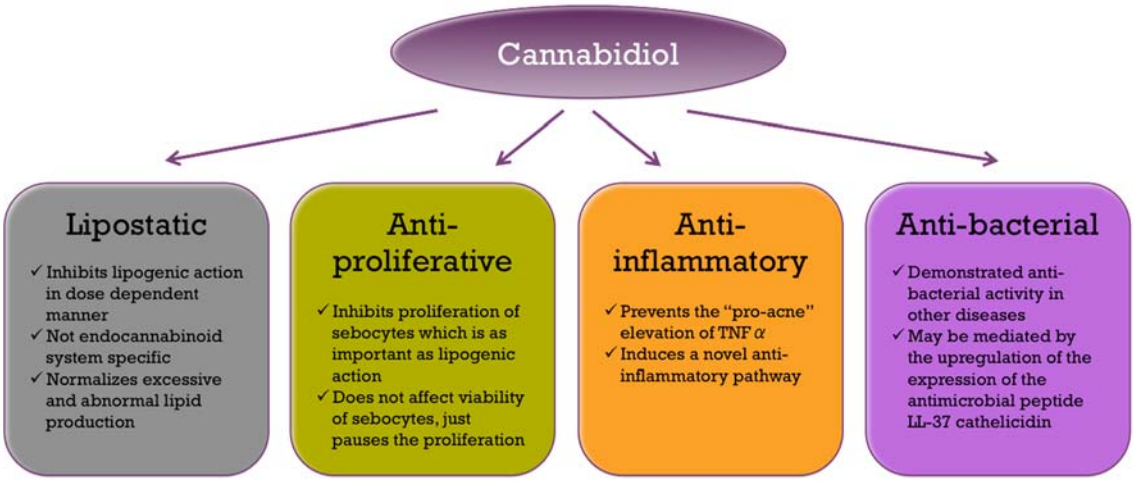
BTX1503 is a formulation of synthetic cannabidiol and other chemicals, which comprise the Permetrex™ drug delivery system. It is designed to deliver a consistent dose of cannabidiol to directly impact cutaneous cell growth and differentiation, provide anti-inflammatory effects and regulate sebum production. It is considered that cannabidiol:

(i) normalises excessive lipid synthesis of human sebocytes (the cells from the oil producing sebaceous glands in the skin which disintegrate and release their oil content);

(ii) decreases proliferation (but not the viability) of these human sebocytes;

(iii) exerts universal anti-inflammatory actions; and

(iv) may have anti-bacterial effects.



Graphic representation of identified mechanism of action for cannabidiol in acne

(e) **Development of BTX1503 and clinical trials**

The Existing Directors and Proposed Directors believe that development of BTX1503 through human clinical trials and towards first regulatory approval will be relatively rapid, due to the current stage of development of the BTX1503 formulation using Permetrex™, the properties of cannabidiol, its safety profile, the availability to Botanix Pharmaceuticals of a synthetic form of cannabidiol, and the general development pathway for topically applied pharmaceuticals compared to oral or systemically delivered drugs.

The Merged Group plans to undertake limited additional pre-clinical studies before proceeding into human clinical trials with BTX1503. Before the Merged Group undertakes first human trials, however, the Merged Group plans to:

(i) manufacture batches of BTX1503, according to GMP quality standards and test and qualify them according to relevant industry standards and processes;

(ii) undertake toxicity and other safety and product characterisation testing with the synthetic cannabidiol formulation;

(iii) finalise packaging and dispensing systems for use in clinical trials; and

(iv) test the chemical and physical stability of BTX1503 in the selected packaging and dispensing system.

Clinical trials involve the administration of the investigational product candidate to healthy volunteers and/or patients under the supervision of qualified investigators following good clinical practice, an international standard meant to protect the rights and health of patients and to define the roles of clinical trial sponsors, administrators and monitors. Clinical trials are conducted under protocols that detail the parameters to be used in monitoring safety, and the efficacy criteria to be evaluated.

The clinical investigation of an investigational product candidate is generally divided into three phases. The three phases of an investigation are as follows:

(i) Phase 1. Phase 1 includes the initial introduction of an investigation product candidate into humans. These trials may be conducted in patients with the target disease or condition, or healthy volunteers.

These studies are designed to evaluate the safety, metabolism, pharmacokinetics and pharmacologic actions of the investigational product candidate in humans, the side effects associated with increasing doses, and if possible, to gain early evidence on efficacy. The total number of participants included in Phase 1 clinical trials varies, but is generally in the range of 20 to 100 participants.

(ii) Phase 2. Phase 2 includes the controlled clinical trials conducted to evaluate the safety and efficacy of the investigational product candidate for a particular indication in patients with the disease or condition under study, to determine dosage tolerance and optimal dosage, and to identify possible adverse side effects and safety risks associated with the product candidate. Phase 2 clinical trials are typically well-controlled, closely monitored, and conducted in a limited subject population, generally in the range of 100 to 300 participants.

(iii) Phase 3. Phase 3 clinical trials are controlled clinical trials conducted in an expanded subject population, often at geographically dispersed clinical trial sites. They are performed after preliminary evidence of the efficacy of the investigational product candidate has been obtained, and are intended to further evaluate dosage, clinical efficacy and safety, to establish the overall benefit-risk relationship of the product candidate, and to provide an adequate basis for drug approval. Phase 3 clinical trials may involve up to thousands of participants across multiple sites and can last several years.

The Merged Group will either conduct its clinical studies in the United States or in Australia.

If first clinical studies are undertaken in the United States, the Merged Group will be required to file an IND application with the FDA prior to the commencement of those clinical trials. These trials will be conducted pursuant to CTN applications, as outlined in more detail in Section 3.8(f). The Merged Group must also receive approval from the DEA prior to the commencement of clinical trials in the United States, as outlined further in Section 3.8(f).

If first clinical studies are undertaken in Australia, the Merged Group will conduct those trials subject to applicable regulatory approval as outlined in more detail in Section 3.8(g). Later stage clinical trials will likely be conducted in the United States in which case the Merged Group will be required to file an IND application with FDA and also comply with certain laws and regulations administered by the DEA as outlined in more detail in Section 3.8(f).

If the Merged Group elects to conduct clinical trials in Australia, then it will submit a new drug application for BTX1503 to the FDA upon successful completion of all requisite clinical trials.

(f) **United States FDA/DEA licensing and manufacturing**

The Controlled Substances Act (US) and its implementing regulations establish a "closed system" of distribution for controlled substances. The Controlled Substances Act (US) imposes registration, security, recordkeeping and reporting, storage, manufacturing, distribution, importation, exportation and

other requirements under the oversight of the DEA. Facilities that research, manufacture, distribute, dispense, import or export any controlled substance must register annually with the DEA.

The DEA categorises controlled substances into one of five schedules - Schedule I, II, III, IV, or V - with varying qualifications for listing in each schedule. The regulatory requirements are more restrictive for Schedule I substances than Schedule II substances and so on through the Schedules. Cannabidiol is a Schedule I substance and consequently, the manufacture, importation, exportation, domestic distribution, storage, dispensing and sale of any product successfully developed by the Merged Group containing cannabidiol will be subject to a degree of regulation by the DEA in the United States.

While cannabis is currently a Schedule I controlled substance in the United States, products approved for medical use in the United States that complete the relevant clinical testing and are approved by FDA are rescheduled in Schedules II-V as these products then satisfy the "acceptable medical use" requirement. This interaction between the DEA and FDA to reclassify particular formulations of Schedule I substances occurs regularly. Once approved by FDA and rescheduled by DEA, a product can then be prescribed to patients in the United States.

Prior to commencement of any clinical trial in the United States, the Merged Group will be required to file an IND application with the FDA, receive approval from the DEA of the protocol, and ensure the appropriate DEA registrations are in place. The IND will go into effect in 30 calendar days unless the FDA places it on hold to resolve issues, including those related to safety/unreasonable risk to the research subjects.

Botanix Pharmaceuticals has contracted with a quality controlled GMP facility in Phoenixville, Pennsylvania qualified to international standard ISO 14644-1. This facility is licensed by the FDA and DEA to develop and manufacture Schedule I substances under the Controlled Substances Act (US), thereby enabling the legal manufacture of its lead product BTX1503. The Merged Group will also need to comply with relevant DEA export regulations to export synthetic cannabidiol products to Australia for testing and also comply with Australian laws with respect to the import and testing of its synthetic cannabidiol products.

(g) **Australian regulatory scheme**

Australia is a signatory to the United Nations *Single Convention on Narcotic Drugs 1961* (**Convention**). The parties to the Convention undertake to limit the production, manufacture, export, import, distribution, trade, use and possession of narcotic drugs and to provide a system of controls permitting their use for medical and scientific purposes.

Australia has several Commonwealth laws that apply to cannabis and cannabis extracts or synthetic versions thereof. The *Narcotic Drugs Act 1967* (Cth) regulates the manufacture of narcotic products including cannabis and its derivatives, and the *Therapeutic Goods Act 1989* (Cth), which is administered by the TGA, provides a national system for regulating the import, export, manufacture and supply of medicines.

In addition, the *Customs (Prohibited Imports) Regulations 1956* (Cth) (**Regulations**) establish a system of licences and permits for the importation

of cannabis and its derivatives for medical or scientific purposes. Cannabinoids, including synthetic cannabidiol, are listed in Schedule 4 of the Regulations, meaning that a licence and permit from the Secretary of the Department of Health is required before they can be imported into Australia.

It is intended that the Merged Group will apply for a licence and the necessary permits to import BTX1503 into Australia for clinical trial purposes.

In Australia, the approval process for commencing Phase 1 and 2 clinical trials resides with the Human Research Ethics Committee (**HREC**). Prior to commencing a clinical trial, a sponsor must submit to the HREC a study protocol, an investigator's brochure and a template informed consent for the clinical trial.

Once a study is approved by the HREC, the sponsor is required to complete an online CTN form on the TGA Businesses Services website, which notifies the TGA that the HREC has evaluated and approved the scientific merit of the trial and approved it on ethical grounds. Once the notification is acknowledged (and a unique clinical trial number issued), the trial may commence.

If the Merged Group elects to conduct clinical trials in Australia, the it will submit a CTN application to seek HREC approval for its first clinical trials in Australia for BTX1503.

Following the successful completion of clinical trials, only products which are listed, registered or included in the Australian Register of Therapeutic Goods (**ARTG**) can be sold in Australia.

Cannabidiol, when used in at least 98% purity in preparations for therapeutic use, is listed in Schedule 4 of the *Standard for the Uniform Scheduling of Medicines and Poisons*, meaning that any medicine which contains cannabidiol will be regulated as a prescription medicine in Australia. Prescription medicines must be registered in the ARTG before they can be prescribed to patients in Australia. To obtain approval for registration, the applicant must submit pharmaceutical, toxicological, pharmacological and clinical information for evaluation. This information is carefully evaluated by the TGA to establish the quality, safety and efficacy of the product for the proposed indications.

(h) **Botanix Pharmaceuticals' pipeline products for psoriasis and atopic dermatitis**

It is intended that the Merged Group will utilise Botanix Pharmaceuticals' GMP synthetic cannabidiol active pharmaceutical ingredient in conjunction with the Permetrex™ drug delivery technology for each of its pipeline products, namely:

(i) BTX1308 for the treatment of plaque psoriasis; and

(ii) BTX1204 for the treatment of atopic dermatitis.

The amount of synthetic cannabidiol and the composition of the formulation for each pipeline product will vary in each case to reflect the relevant disease characteristics, the requirement to maintain some of the drug active on the skin for extended periods of time, the sensitivity of the relevant diseased skin to certain excipients and the dosing regime desired. It is intended that the Merged Group will undertake some formulation development for each of these pipeline products to enable later GMP manufacturing and may collaborate

with other companies or research institutions to undertake initial proof of concept studies for these pipeline products.

The funds raised in this Offer will not be sufficient to progress any of these pipeline products into human clinical testing and further capital will need to be raised, or other grant or collaboration funding secured to progress these products.

(i) **Intellectual property**

The Company has an exclusive licence for the use the Permetrex™ drug delivery technology from Dr Cooper pursuant to the Permetrex™ Licence Agreement dated 1 May 2015. The Company has also filed a patent application to protect its first product, BTX503, for the treatment of acne.

Further information concerning Botanix Pharmaceuticals' intellectual property is contained in Section 8.

4. Industry overview

4.1 Introduction

Botanix Pharmaceuticals' business is focused on the medical dermatology market and the development of prescription products for the treatment of serious skin diseases. Medical dermatology focuses on therapeutic solutions to treat serious skin conditions, such as psoriasis, acne and atopic dermatitis (commonly known as severe eczema). These diseases impact millions of patients worldwide and can have significant and multidimensional effects on patients' quality of life in ways comparable to other serious diseases.

The Existing Directors and Proposed Directors believe that medical dermatology represents a particularly attractive segment of the biopharmaceutical industry for multiple reasons:

(a) dermatology represents a large, growing, specialty market supported by strong patient demand;

(b) the dermatology market is ripe for innovation with significant commercial opportunities;

(c) the development of dermatology products can be relatively efficient in terms of time and cost;

(d) dermatology products can be commercialised at relatively low cost; and

(e) the needs of dermatologists and their patients have been underserved as a result of the significant consolidation of dermatology-focused companies.

4.2 Overview of the medical dermatology market

Skin is the largest and fastest-growing organ in the human body and there are over 3,000 different skin conditions and diseases, many of which have a significant effect on patients' lives. Dermatologists are medical specialists that work with patients to find solutions for their skin conditions. These solutions can be categorised broadly into either *medical dermatology* (which focuses for example on the treatment of diseases such as acne, psoriasis and atopic dermatitis), or *aesthetics* (which focuses on improving the patient's appearance, most frequently the signs of aging).

Botanix Pharmaceuticals' business focuses on the medical dermatology market, which addresses many commonly-found conditions that can have significant effects on patients' quality of life, including their physical, functional and emotional well-being. For example, psoriasis has been shown to affect a patient's quality of life to an extent similar to that seen in other chronic diseases such as cancer, heart disease, diabetes and depression. Likewise, acne patients have also equated their condition as comparable to other serious diseases, such as asthma and arthritis.

In 2010, there were an estimated 39 million office visits dermatologists in the United States. Acne is the most common skin condition in the United States and it is estimated that 80% of 11 to 30 year olds globally are affected by acne.

Despite the significant impacts that skin disease has on many patients' lives and the unmet needs for new treatments, the medical dermatology market is characterised by a number of older and often generic products (with relatively modest sales), and a much larger category of biological treatments (boasting much more significant sales levels). For example, the branded product Accutane (isotretinoin), an oral drug for the

treatment of severe acne achieved peak sales of approximately $750 million in 2000, but due to its significant side effect issues and subsequent generic entry, Accutane was withdrawn from the market by its owner Roche in 2009. In contrast, the injectable biologics Enbrel, Humira and Stelara (which are used to treat psoriasis and other immune mediated diseases) achieved aggregate sales of more than $20 billion in 2014. This is despite these biologics having significant side effect profiles including cancer, tuberculosis and neurological diseases.

Two other factors are believed to be relevant to understanding the market for prescription dermatology products. First, dermatologists tend to be particularly focused on the safety of pharmaceutical products because, while skin diseases can have profound effects on patients' quality of life, few are life-threatening. Secondly, dermatologists tend to place a high level of emphasis on products that are easy to use, as patient adherence is key to successful treatment. This contributes to dermatologists' general preference for topical treatments.

4.3 Botanix Pharmaceuticals' initial target diseases - acne, psoriasis and atopic dermatitis

(a) Introduction

Botanix Pharmaceuticals' initial focus has been on the development of medical dermatology products for the treatment of serious acne, psoriasis and atopic dermatitis. As outlined below in this Section 4.3, Botanix Pharmaceuticals' targeted active pharmaceutical ingredient, cannabidiol, has potential as a new therapeutic in each of these disease areas. For example, in acne, cannabidiol may address the four major sequalae of the disease, namely excessive lipid production, hyper proliferation of cells, bacterial infection and inflammation.

While cannabidiol may have a wider potential role in treating and preventing these skin diseases, challenges with the impurity and variability of the cannabidiol drug substance, as well as the difficulty of delivering it effectively across the skin, have significantly retarded the development of cannabidiol based products as pharmaceutical treatments. Botanix Pharmaceuticals' approach of utilising a pure and GMP manufactured synthetic form of cannabidiol coupled with a novel skin delivery technology (Permetrex™), are focused on solving both of these challenges.

(b) Acne

Acne is the most common skin disease in the world and is characterised by clogging of the pores and associated local skin lesions that can appear on the face, chest or back. Acne lesions are believed to result from an interaction of four primary pathogenic factors:

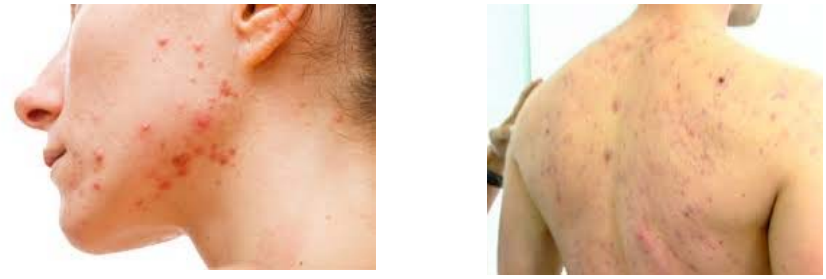
(i) the excessive production of sebum or lipids by sebaceous glands in the skin;

(ii) hyper-proliferation of sebocytes (highly specialised, sebum-producing epithelial cells) that contribute to clogging of pores through which sebum is normally released to the skin surface;

(iii) colonisation of the area in and around the sebaceous gland by bacteria; and

(iv) inflammation, often associated with colonisation by bacteria and their breakdown of sebum into irritating breakdown products.

The clogged pores can become enlarged and inflamed as sebum and its breakdown products accumulate, resulting in visible lesions that can be unsightly and cause permanent scarring. Acne can have a significant impact on a patients' quality of life, resulting in social, psychological and emotional impairments.



Representation of acne symptoms on face and back

Treatments for acne generally comprise topical or oral therapies (often in combination. As for many other skin diseases, dermatologists and their patients often prefer to use topical products that can act locally in the skin, while limiting the risk of systemic side effects. For patients with more severe disease, oral treatments are used, usually in combination with topical products.

For a long period of time, the same four prescription pharmaceutical product classes have been used to treat acne:

(i) Antimicrobials. Antimicrobials for acne treatment target bacterial colonisation and inflammation and are widely used topically and, in more severe disease, orally. While antimicrobials have been shown to be effective, there is a growing interest in limiting the use of antibiotics in acne, because of concerns regarding bacterial resistance and the attendant possibility that the efficacy of topical antibiotics in acne may be declining. In 2014 and 2015, approximately 11.5 million oral antibiotics and 6.5 million topical antibiotics were prescribed in United States for dermatology related issues including acne.

(ii) Retinoids. Topical retinoids address some of the changes in skin cells that contribute to clogging of the pores and are among the most commonly used prescription acne medications. Their limitations include skin irritation and relatively modest efficacy in comparison with systemic therapies.

(iii) Isotretinoin. Oral isotretinoin (marketed initially as 'Accutane') operates to significantly reduce sebum production. Even in the case of very severe disease, the efficacy of oral isotretinoin can be significant, with large proportions of patients achieving partial or complete clearance, after one course of therapy. However, oral isotretinoin is associated with significant systemic toxicity, including liver damage and severe birth defects, which largely limit its use to patients with severe disease who enrol in a monitoring program intended to restrict distribution of the drug. Despite this, oral isotretinoin continues to be widely used for severe acne due to the lack of available safe products with robust efficacy.

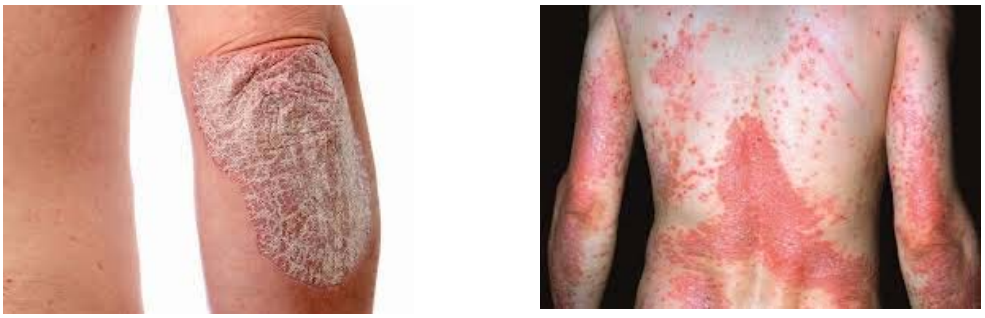
(iv) Hormonal therapies. Oral agents that reduce the activity of sex hormones (called androgens) are also highly effective, as these treatments also reduce sebum production. Hormonal therapies have well-known systemic side effects, such as mood disturbance, loss of muscle mass and reduced sexual desire, that are related to their effects on sex hormones (they are most often used in the form of contraceptives). As such, they are not widely used in men or in women not seeking contraception.

Acne treatment guidelines recommend that acne treatment be directed toward as many of the four primary pathogenic factors as possible. Accordingly, patients are often treated with combination regimens that incorporate multiple agents with complementary mechanisms of action targeting different pathogenic factors. While systemic therapies (such as isotretinoin) may inhibit sebum production, their use is limited by significant systemic side effects. Also, an unmet need remains for effective therapies that are not associated with antibiotic resistance or treatment-limiting side effects, particularly therapies with novel mechanisms of action.

(c) **Moderate to severe plaque psoriasis**

Psoriasis is a chronic, complex and immune-mediated disease that requires long-term treatment. It is commonly considered the most prevalent autoimmune disease in the world. The American Academy of Dermatology estimates that prevalence of psoriasis in the United States was approximately 7.5 million people, and 1.5 million adults are estimated to have moderate to severe psoriasis.

Approximately 80% of psoriasis patients have plaque psoriasis. These patients typically have symmetrically distributed plaques of thickened, inflamed red skin, covered with silvery scales located on portions of the body including the elbows, knees, scalp or back. Approximately 20% of plaque psoriasis patients have moderate-to-severe disease. The National Psoriasis Foundation classifies moderate-to-severe plaque psoriasis as affecting at least 3% of the body surface area, although other factors, such as the location of lesions and their impact on quality of life, are also considered in assessing the severity of the disease.



Representation of psoriasis symptoms on elbow and back

The symptoms of psoriasis are not limited to skin lesions and evidence increasingly suggests that skin symptoms of psoriasis are a dermal manifestation of a wider systemic autoimmune disorder. Psoriasis often presents with one or more comorbidities, such as joint disease or even

cardiovascular disease. Psoriatic arthritis, psoriasis with joint disease, is believed to develop in up to 30% of psoriasis patients.

Studies have also found that psoriasis is associated with an increased risk of major adverse cardiovascular events, including heart attack, stroke and cardiovascular mortality. As a result, there is increasing interest in treating psoriasis with products that can potentially address the systemic manifestations of the disease.

The treatment of moderate-to-severe plaque psoriasis has been advanced recently by the introduction of biologic "TNF" inhibitors. TNF is a naturally occurring molecule that promotes inflammation in the body and in psoriasis (and many other inflammatory diseases, such as rheumatoid arthritis and psoriatic arthritis), that inflammation can lead to excessive growth of skin cells (psoriasis), damage to joint tissue (rheumatoid arthritis). Both of these manifestations are in psoriatic arthritis. TNF inhibitors treat psoriasis and other inflammatory conditions by binding to and suppressing the biological activity of TNF.

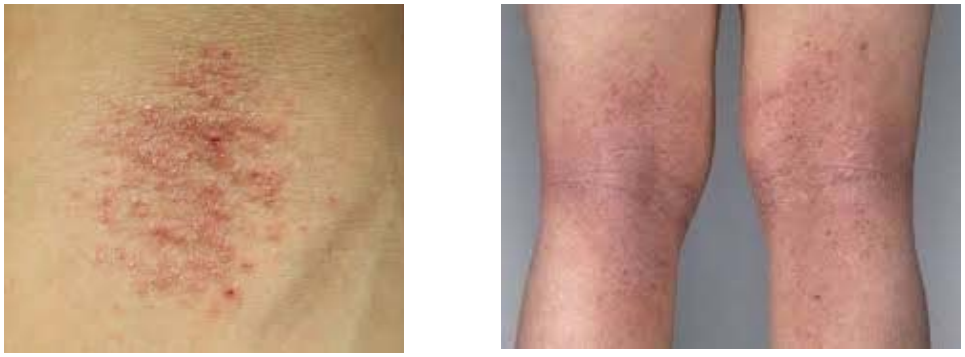
While biologics such as Enbrel, Humira and Stelara have become useful therapeutic options for dermatologists and their psoriasis patients, they suffer from limitations, including the fact that some patients fail to respond, experience reduced response over time or experience side effects. Most TNF inhibitor product labels carry 'black box' warnings regarding increased risk of serious infections that may lead to hospitalisation or death, and an association with increased cancer risk. According to an analysis of survey data collected by the National Psoriasis Foundation, roughly half of moderate-to-severe plaque psoriasis patients remain unsatisfied with their treatment options.

In light of these systemic side effects and the overall preference for topical products in dermatology, the Existing Directors and Proposed Directors believe that there is a substantial unmet need and commercial opportunity for a new product class that treats the signs and symptoms of psoriasis that potentially reduces the incidence and severity of the disease. Botanix Pharmaceuticals' BTX1308 pipeline product aims to address some of these unmet needs.

(d) **Atopic Dermatitis (or Severe Eczema)**

Atopic dermatitis (or severe eczema) is a common inflammatory skin disease most commonly seen in children. According to the National Eczema Association, an estimated 31.6 million people in the United States have symptoms of eczema or eczematous conditions and among that group. The National Eczema Association also estimates that the worldwide prevalence of atopic dermatitis in infants and children is approximately 10-18%. The estimated cost of treatment for this condition is estimated to be as high as $3.8 billion per year in the United States alone.

Atopic dermatitis is characterised by a loss of barrier function, which is the impermeable outer layer of the skin, as well as skin inflammation. Studies suggest that primary defects in the epidermal structure, particularly formation of the *stratum corneum* (outer layer of the skin), play a pivotal role in driving the pathogenesis of atopic dermatitis. The key effect of these epidermal impairments is a reduced ability for atopic skin to self-repair, leading to extended signalling of repair and inflammatory cascades. These signals in turn trigger further impairment of skin functions, which results in chronic activation of immune cells, and which eventually presents as atopic dermatitis and related conditions.



Representation of atopic dermatitis symptoms on limbs

The two most commonly used classes of topical therapies for atopic dermatitis are glucocorticoids and calcineurin inhibitors. Though effective, they both have been shown to have serious side effects in some patients. For glucocorticoids, these side effects include thinning of the skin and loss of barrier function, adrenal suppression caused by drug absorption through the skin, as well as contraindications for use on the face and other sensitive areas of skin. For calcineurin inhibitors, these side effects include a black box warning for the potential to induce cancer.

BTX1204 has potential for development as a first-in-class therapy that may control inflammation and improve the skin barrier function in these patients while avoiding the side effects associated with existing treatments.

5. Financial information

5.1 Historical financial information

The Investigating Accountant's Report contained in Section 6 sets out:

(a) the reviewed Statement of Financial Position of the Company as at 31 December 2015;

(b) the audited Statement of Financial Position of Botanix Pharmaceuticals as at 31 December 2015; and

(c) the reviewed pro-forma Statement of Financial Position of the Company (after Completion of the Acquisition) as at 31 December 2015.

Investors are urged to read the Investigating Accountant's Report in full.

The full financial statements for the Company for its financial year ended 30 June 2015, which include the notes to the financial statements, can be found from the Company's ASX announcements platform on www.asx.com.au.

5.2 Botanix Pharmaceuticals' financial background

During the period from the incorporation of Botanix Pharmaceuticals on 13 August 2015 to 31 December 2015, Botanix Pharmaceuticals has borrowed an aggregate of $161,604 from two of its Botanix Vendors.

These funds have been spent on the following primary purposes:

Consulting fees	$47,640
Website development	$8,800
Travel expenses	$80,902
Legal and professional expenses	$18,000
General working capital	$6,262
TOTAL	**$161,604**

5.3 Forecast financial information

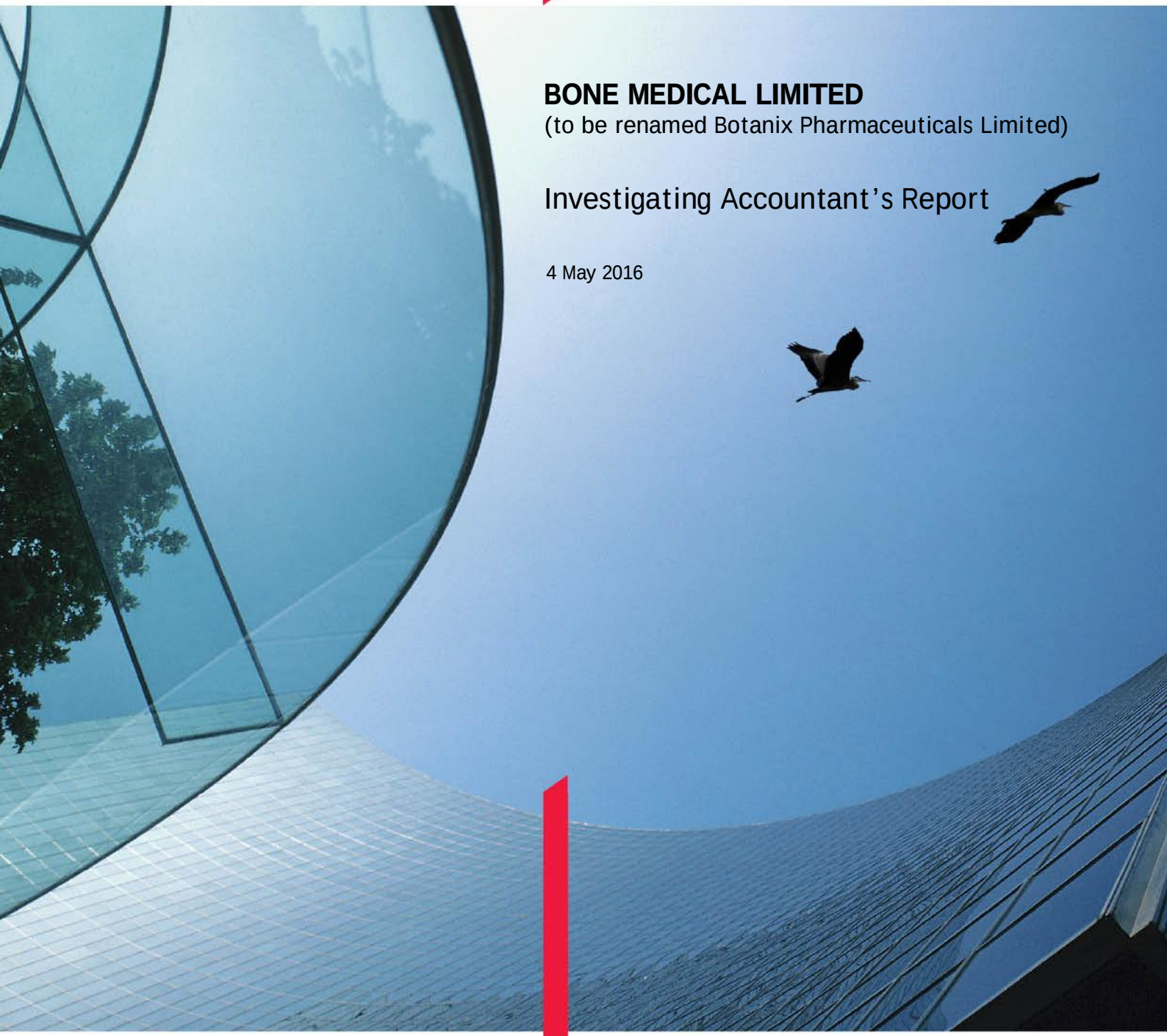
There are significant uncertainties associated with forecasting future revenues and expenses of the Merged Group. In light of uncertainty as to timing and outcome of the Merged Group's growth strategies and the general nature of the industry in which the Merged Group will operate, as well as uncertain macro market and economic conditions in the Merged Group's markets, the Company's performance in any future period cannot be reliably estimated. On these bases and after considering ASIC Regulatory Guide 170, the Directors do not believe that they have a reasonable basis to reliably forecast future earnings and accordingly forecast financials are not included in this Prospectus.

5.4 Dividend policy

The Merged Group does not expect to pay dividends in the near future as its focus will primarily be on using cash reserves to grow and develop the Botanix Pharmaceuticals business.

Any future determination as to the payment of dividends by the Merged Group will be at the discretion of the Directors and will depend upon matters such as the availability of distributable earnings, the operating results and financial condition of the Merged Group, future capital requirements, general business and other factors considered relevant by the Directors. No assurances are given in relation to the payment of dividends, or that any dividends may attach franking credits.

6. Investigating Accountants Report



BONE MEDICAL LIMITED

(to be renamed Botanix Pharmaceuticals Limited)

Investigating Accountant's Report

4 May 2016

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www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

4 May 2016

The Directors

Bone Medical Limited

Ground Floor, 16 Ord Street

WEST PERTH, WA 6005

Dear Directors

INVESTIGATING ACCOUNTANT'S REPORT

1. Introduction

BDO Corporate Finance (WA) Pty Ltd (**'BDO'**) has been engaged by Bone Medical Limited (**'Bone Medical'** or **'the Company'**) to prepare this Investigating Accountant's Report (**'Report'**) in relation to the historical financial information and pro forma historical information of Bone Medical, for inclusion in the Prospectus. The Prospectus is required under Australian Securities Exchange (**'ASX'**) listing requirements for Bone Medical to re-comply with Chapters 1 and 2 of the ASX Listing Rules, as a result of the Company executing a conditional binding term sheet to acquire 100% of the issued capital of Botanix Pharmaceuticals Inc. (**'Botanix')** (**'the Acquisition'**).

Broadly, the Prospectus will offer the following:

a) the offer of 150 million Shares (on a post-consolidation basis) at an issue price of $0.02 each to raise $3 million before costs, with the ability to accept oversubscriptions of up to an additional 25 million Shares (on a post-consolidation basis) at $0.02 each to raise an additional $0.5 million before costs (**'Offer'**); and

b) the offer of 13 million advisory options (on a post-consolidation basis) at an issue price of $0.00001 per Option to Argonaut Securities Pty Ltd (**'Argonaut'**), and/or its nominees, for services provided in relation to the Offer (**'Advisor Options Offer'**).

The Offers are conditional on the Company completing the Acquisition, whereby the Company will issue 153.06 million Shares (on a post-consolidation basis) to the shareholders of Botanix in consideration for 100% of the issued shares of Botanix (**'Vendor Shares'**).

At Bone Medical's General Meeting, the Company will seek shareholder approval for, among other things, the consolidation of the Company's issued capital on a one (1) for three and one third ($3^{1}/_{3}$) basis (**'Capital Consolidation'**). All references in our Report are on a post Capital Consolidation basis unless otherwise stated.

Expressions defined in the Prospectus have the same meaning in this Report. BDO holds an Australian Financial Services Licence (AFS Licence Number 316158).

This Report has been prepared for inclusion in the Prospectus. We disclaim any assumption of responsibility for any reliance on this Report or on the financial information to which it relates for any purpose other than that for which it was prepared.

2. Scope

You have requested BDO to perform a limited assurance engagement in relation to the historical and pro forma historical financial information described below and disclosed in the Prospectus.

The historical and pro forma historical financial information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

You have requested BDO to review the following historical financial information (together the **'Historical Financial Information'**) included in the Prospectus:

- the reviewed historical Statement of Profit or Loss and Other Comprehensive Income for Bone Medical for the half-year ended 31 December 2015;
- the audited historical Statement of Profit or Loss and Other Comprehensive Income for Botanix for the period from 13 August 2015 (incorporation) to 31 December 2015;
- the reviewed historical Statement of Financial Position of Bone Medical as at 31 December 2015; and
- the audited historical Statement of Financial Position of Botanix as at 31 December 2015.

The Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies.

The Historical Financial Information of Bone Medical has been extracted from the financial report for the half-year ended 31 December 2015, which was reviewed by BDO Audit (WA) Pty Ltd in accordance with the Australian Auditing Standards. BDO Audit (WA) Pty Ltd issued an unmodified review conclusion on the financial report.

The Historical Financial Information of Botanix has been extracted from the financial report for the period from 13 August 2015 (incorporation) to 31 December 2015, which was audited by BDO Audit (WA) Pty Ltd in accordance with the Australian Auditing Standards. BDO Audit (WA) Pty Ltd issued an unmodified audit opinion on the financial report.

Pro Forma Historical Financial Information

You have requested BDO to review the following pro forma historical financial information (**'Pro Forma Historical Financial Information'**) of Bone Medical included in the Prospectus:

- the pro forma historical Statement of Financial Position as at 31 December 2015.

The Pro Forma Historical Financial Information has been derived from the Historical Financial Information, after adjusting for the effects of the subsequent events described in Section 6 of this Report and the pro forma adjustments described in Section 7 of this Report. The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the Historical Financial Information and the event or transactions to which the pro forma adjustments relate, as described in Section 7 of this Report, as if those events or transactions had occurred as at the date of the Historical Financial Information. Due to its nature, the Pro Forma Historical Financial Information does not represent the Company's actual or prospective financial position or financial performance.

The Pro Forma Historical Financial Information has been compiled by Bone Medical to illustrate the impact of the events or transactions described in Section 6 and Section 7 of the Report on Bone Medical's financial position as at 31 December 2015. As part of this process, information about Bone Medical's financial position has been extracted by the Company from Bone Medical's financial statements for the half-year ended 31 December 2015.

3. Directors' responsibility

The Directors of Bone Medical are responsible for the preparation and presentation of the Historical Financial Information and Pro Forma Historical Financial Information, including the selection and determination of pro forma adjustments made to the Historical Financial Information and included in the Pro Forma Historical Financial Information. This includes responsibility for such internal controls as the Directors determine are necessary to enable the preparation of Historical Financial Information and Pro Forma Historical Financial Information are free from material misstatement, whether due to fraud or error.

4. Our responsibility

Our responsibility is to express limited assurance conclusions on the Historical Financial Information and the Pro Forma Historical Financial Information. We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

Our limited assurance procedures consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited assurance engagement is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or limited assurance reports on any financial information used as a source of the financial information.

5. Conclusion

Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Historical Financial Information, as described in the Appendices to this Report, and comprising:

- the historical Statement of Profit or Loss and Other Comprehensive Income for Bone Medical for the half-year ended 31 December 2015;

- the historical Statement of Profit or Loss and Other Comprehensive Income for Botanix for the period from 13 August 2015 (incorporation) to 31 December 2015;
- the historical Statement of Financial Position of Bone Medical as at 31 December 2015; and
- the historical Statement of Financial Position of Botanix as at 31 December 2015.

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 2 of this Report.

Pro Forma Historical Financial information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information as described in the Appendices to this Report, and comprising:

- the pro forma historical Statement of Financial Position as at 31 December 2015,

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 2 of this Report.

6. Subsequent Events

The pro forma statement of financial position reflects the following events that have occurred subsequent to 31 December 2015:

- Since 1 January 2016, Botanix has received an additional $88,396 in loans from shareholders (**'Botanix Shareholder Loans'**). The total Botanix Shareholder Loans as at the date of our Report is $250,000.

Apart from the matters dealt with in this Report, and having regard to the scope of this Report and the information provided by the Directors, to the best of our knowledge and belief no other material transaction or event outside of the ordinary business of Bone Medical or Botanix, not described above, has come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

7. Assumptions Adopted in Compiling the Pro forma Statement of Financial Position

The pro forma historical Statement of Financial Position is shown in Appendix 2. This has been prepared based on the Historical Financial Information as at 31 December 2015, the subsequent events set out in Section 6, and the following transactions and events relating to the issue of Shares under this Prospectus:

- the Company will change its name from Bone Medical Limited to Botanix Pharmaceuticals Limited;
- the Company will complete the Capital Consolidation on a one (1) for three and one third ($3^{1}/_{3}$) basis;
- the issue of 150 million Shares at an issue price of $0.02 each to raise $3 million before costs based on the minimum subscription or the issue of 175 million Shares at an issue price of $0.02 each to raise $3.5 million before costs based on the maximum subscription, pursuant to the Offer under the Prospectus;
- costs of the Offer are estimated to be $290,000 based on the minimum subscription or $317,500 based on the maximum subscription. Of these amounts, $40,000 has been

incurred in relation to the Acquisition, which has been expensed, while the balance is to be offset against share capital.

- the issue of the Vendor Shares (153.06 million Shares) to the Botanix shareholders in consideration for 100% of the shares in Botanix under the Acquisition;
- upon completion of the Acquisition, Bone Medical will repay the Botanix Shareholder Loans outstanding up to a maximum of $250,000;
- the issue of 13 million Advisor Options, each with an exercise price of $0.03 and an expiry date of three years after the date of issue, to Argonaut and/or its nominees at an issue price of $0.00001 per Advisor Option, for services provided in relation to the Offer.

8. Independence

BDO is a member of BDO International Ltd. BDO does not have any interest in the outcome of the Offer other than in connection with the preparation of this Report and participation in due diligence procedures, for which professional fees will be received. BDO is the auditor of Bone Medical and Botanix, and from time to time, provides Bone Medical with certain other professional services for which normal professional fees are received.

9. Disclosures

This Report has been prepared, and included in the Prospectus, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to be a substitute for professional advice and potential investors should not make specific investment decisions in reliance on the information contained in this Report. Before acting or relying on any information, potential investors should consider whether it is appropriate for their objectives, financial situation or needs.

Without modifying our conclusions, we draw attention to Section 2 of this Report, which describes the purpose of the financial information, being for inclusion in the Prospectus. As a result, the financial information may not be suitable for use for another purpose.

BDO has consented to the inclusion of this Report in the Prospectus in the form and context in which it is included. At the date of this Report this consent has not been withdrawn. However, BDO has not authorised the issue of the Prospectus. Accordingly, BDO makes no representation regarding, and takes no responsibility for, any other statements or material in or omissions from the Prospectus.

Yours faithfully

BDO Corporate Finance (WA) Pty Ltd

Adam Myers

Director

APPENDIX 1

BONE MEDICAL LIMITED (TO BE RENAMED BOTANIX PHARMACEUTICALS LIMITED)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Bone Medical Limited Consolidated Statement of Profit or Loss and Other Comprehensive Income	Reviewed for the half-year ended 31-Dec-15 $
Revenue from continuing operations	
Debt forgiveness	-
Finance revenue	6,702
Total revenue	**6,702**
Expenses	
Employee benefits expense	(73,913)
Financial charges expense	(242)
Finder fee	-
Foreign exchange losses	-
Other expenses	(31,251)
Professional consultant expense	(202,960)
Provision for doubtful debt expense	(400,000)
Total expenses	**(708,366)**
Loss before income tax expense	**(701,664)**
Income tax benefit/(expense)	-
Loss after income tax for the period on continuing operations	**(701,664)**
Profit/(Loss) for the period from discontinued operations	92,320
Total comprehensive loss for the period attributed to shareholders continued operations	**(609,344)**

Botanix Pharmaceuticals Inc. Consolidated Statement of Profit or Loss and Other Comprehensive Income	Audited from 13-Aug-15 (incorporation) to 31-Dec-15 US$
Revenue	
Sales income	-
Total revenue	**-**
Expenses	
Banks fees	(75)
Consulting expense	(34,300)
Computer expense	(2,400)
Office expense	(165)
Professional fees	(12,970)
Sponsorship expense	(3,000)
Travel expense	(58,250)
Website expense	(6,344)
Total expenses	**(117,504)**
Loss before income tax expense	**(117,504)**
Income tax benefit/(expense)	-
Loss after income tax for the period on continuing operations	**(117,504)**
Other comprehensive income, net of tax	-
Total comprehensive loss for the period attributed to shareholders continued operations	**(117,504)**

The above consolidated statements of profit or loss and other comprehensive income show the historical financial performance of both Bone Medical and Botanix, and are to be read in conjunction with the notes to and forming part of the Historical Financial Information set out in Appendix 3 and the prior year financial information set out in Appendix 4. Past performance is not a guide to future performance.

APPENDIX 2

BONE MEDICAL LIMITED (TO BE RENAMED BOTANIX PHARMACEUTICALS LIMITED)

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

					Pro forma adjustments		Pro forma after issue	
	Notes	Bone Medical Reviewed as at 31-Dec-15 $	Botanix Audited as at 31-Dec-15 $	Subsequent events $	Minimum subscription $	Maximum subscription $	Minimum subscription $	Maximum subscription $
CURRENT ASSETS								
Cash and cash equivalents[#]	2	598,363	15,240	88,396	2,460,000	2,932,500	3,161,999	3,634,499
Trade and other receivables - continuing operations		13,379	608	-	-	-	13,987	13,987
Trade and other receivables - discontinued operations		92,320	-	-	-	-	92,320	92,320
TOTAL CURRENT ASSETS		**704,062**	**15,848**	**88,396**	**2,460,000**	**2,932,500**	**3,268,306**	**3,740,806**
TOTAL ASSETS		**704,062**	**15,848**	**88,396**	**2,460,000**	**2,932,500**	**3,268,306**	**3,740,806**
CURRENT LIABILITIES								
Trade and other payables		59,499	14,468	-	-	-	73,967	73,967
Trade and other payables - discontinued operations		24,925	-	-	-	-	24,925	24,925
Borrowings	3	-	161,604	88,396	(250,000)	(250,000)	-	-
TOTAL CURRENT LIABILITES		**84,424**	**176,072**	**88,396**	**(250,000)**	**(250,000)**	**98,892**	**98,892**
TOTAL LIABILITIES		**84,424**	**176,072**	**88,396**	**(250,000)**	**(250,000)**	**98,892**	**98,892**
NET ASSETS/(LIABILITES)		**619,638**	**(160,224)**	**-**	**2,710,000**	**3,182,500**	**3,169,414**	**3,641,914**
EQUITY								
Share capital	4	25,657,926	608	-	(21,530,147)	(21,057,647)	4,128,387	4,600,887
Reserves	5	1,590,169	-	-	(1,421,169)	(1,421,169)	169,000	169,000
Accumulated losses	6,7	(26,628,457)	(160,832)	-	25,661,316	25,661,316	(1,127,973)	(1,127,973)
TOTAL EQUITY		**619,638**	**(160,224)**	**-**	**2,710,000**	**3,182,500**	**3,169,414**	**3,641,914**

The audited financials of Botanix as at 31 December 2015 have been converted into $A at an exchange rate of A$:US$ 0.7306

[#]*The cash and cash equivalents balance above does not account for working capital spent during the period from 1 January 2016 until completion of the Acquisition. From 1 January 2016 to completion, the Company and Botanix have estimated combined working capital requirements of approximately $236,300.*

The pro forma consolidated statement of financial position after the Offer is as per the consolidated statement of financial position before the Offer adjusted for any subsequent events and the transactions relating to the issue of Shares pursuant to this Prospectus. The pro forma consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the Historical Financial Information set out in Appendix 3 and the prior year financial information set out in Appendix 4.

APPENDIX 3

BONE MEDICAL LIMITED (TO BE RENAMED BOTANIX PHARMACEUTICALS LIMITED)

NOTES TO AND FORMING PART OF THE HISTORICAL FINANCIAL INFORMATION

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the Historical Financial Information included in this Report have been set out below.

Basis of preparation of historical financial information

The Historical Financial Information has been prepared in accordance with the recognition and measurement, but not all the disclosure requirements of the Australian equivalents to International Financial Reporting Standards ('**AIFRS**'), other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act 2001.

Going Concern

The historical financial information has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The ability of the Company to continue as a going concern is dependent on the success of the fundraising under the Prospectus. The Directors believe that the Company will continue as a going concern. As a result the financial information has been prepared on a going concern basis. However should the fundraising under the Prospectus be unsuccessful, the entity may not be able to continue as a going concern. No adjustments have been made relating to the recoverability and classification of liabilities that might be necessary should the Company not continue as a going concern.

Reporting Basis and Conventions

The Report is also prepared on an accrual basis and is based on historic costs and does not take into account changing money values or, except where specifically stated, current valuations of non-current assets.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

a) Revenue Recognition

Revenue is recognised when it is probable that the economic benefit will flow to the entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

b) Income Tax

The company as a Corporation is a separate legal tax entity in accordance with Internal Revenue Service, and accordingly is subject to income tax.

c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank

overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

d) Trade and other receivables

Trade receivables are recognised as the amount receivable and are due for settlement no more than 90 days from the date of recognition. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off against the receivable directly unless a provision for impairment has previously been recognised.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

Loans granted are recognised at the amount of consideration given or the cost of services provided to be reimbursed.

e) Trade and Other Payables

Trade and other payables represent the liabilities at the end of the reporting period for goods and services received by the company that remain unpaid.

Trade payables are recognised at their transaction price. Trade payables are obligations on the basis of normal credit terms.

f) Borrowings

Loans and borrowings are initially recognised at fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

g) Issued Capital

Common shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

h) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

i) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the

measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

NOTE 2. CASH AND CASH EQUIVALENTS	Reviewed as at 31-Dec-15 $	Pro forma after Offer Minimum subscription $	Pro forma after Offer Maximum subscription $
Cash and cash equivalents[#]	598,363	3,161,999	3,634,499
Reviewed balance of Bone Medical at 31 December 2015		598,363	598,363
Audited Accounts of Botanix at 31 December 2015		15,240	15,240
Subsequent events:			
Receipt of additional Botanix Shareholder Loans		88,396	88,396
		88,396	88,396
Pro forma adjustments:			
Proceeds from shares issued under the Offer		3,000,000	3,500,000
Cost of the Offer		(290,000)	(317,500)
Repayment of Botanix Shareholder Loans		(250,000)	(250,000)
		2,460,000	2,932,500
Pro forma Balance[#]		3,161,999	3,634,499

[#]*The cash and cash equivalents balance above does not account for working capital spent during the period from 1 January 2016 until completion of the Acquisition. From 1 January 2016 to completion, the Company and Botanix have estimated combined working capital requirements of approximately $236,300.*

NOTE 3. BORROWINGS	Reviewed as at 31-Dec-15 $	Pro forma after Offer Minimum subscription $	Pro forma after Offer Maximum subscription $
Borrowings	-	-	-
Reviewed balance of Bone Medical at 31 December 2015		-	-
Audited Accounts of Botanix at 31 December 2015		161,604	161,604
Subsequent events:			
Receipt of additional Botanix Shareholder Loans		88,396	88,396
		88,396	88,396
Pro forma adjustments:			
Repayment of Botanix Shareholder Loans		(250,000)	(250,000)
		(250,000)	(250,000)
Pro forma Balance		-	-

NOTE 4. SHARE CAPITAL	Reviewed as at 31-Dec-15 $		Pro forma after Offer Minimum subscription $	Pro forma after Offer Maximum subscription $
Share Capital	25,657,926		4,128,387	4,600,887
	Number of shares (minimum subscription)	**Number of shares (maximum subscription)**	**$**	**$**
Fully paid ordinary share capital of Bone Medical as at 31 December 2015*	77,338,971	77,338,971	25,657,926	25,657,926
Fully paid ordinary share capital of Botanix as at 31 December 2015	4,444,445	4,444,445	608	608
	77,338,971	77,338,971	25,658,534	25,658,534
Pro forma adjustments:				
Proceeds from shares issued under the Offer	150,000,000	175,000,000	3,000,000	3,500,000
Cost of the Offer	-	-	(250,000)	(277,500)
Issue of Vendor Shares	153,060,000	153,060,000	1,546,779	1,546,779
Issue of options under the Advisor Offer	-	-	(169,000)	(169,000)
Elimination of Bone Medical's share capital upon Acquisition (see Note 7)	-	-	(25,657,926)	(25,657,926)
	303,060,000	328,060,000	(21,530,147)	(21,057,647)
Pro forma Balance	380,398,971	405,398,971	4,128,387	4,600,887

*Number of shares are shown on a post Capital Consolidation basis

NOTE 5. RESERVES	Reviewed as at 31-Dec-15 $	Pro forma after Offer Minimum subscription $	Pro forma after Offer Maximum subscription $
Reserves	1,590,169	169,000	169,000
Reviewed balance of Bone Medical at 31 December 2015		1,590,169	1,590,169
Audited Accounts of Botanix at 31 December 2015		-	-
Pro forma adjustments:			
Issue of options under the Advisor Offer		169,000	169,000
Elimination of Bone Medical's reserves upon Acquisition (see Note 7)		(1,590,169)	(1,590,169)
		(1,421,169)	(1,421,169)
Pro forma Balance		169,000	169,000

Using Black-Scholes option valuation methodology, the fair value of the Advisor Options to be issued has been calculated using the following inputs:

Advisor Options	
Number of Advisory Options	13,000,000
Value of underlying security	$0.020
Exercise price	$0.030
Life of the options (years)	3.00
Expected volatility	119%
Expected dividend yield	nil
Risk free rate	1.87%

NOTE 6. ACCUMULATED LOSSES	Reviewed as at 31-Dec-15 $	Pro forma after Offer Minimum subscription $	Pro forma after Offer Maximum subscription $
Accumulated losses	(26,628,457)	(1,127,973)	(1,127,973)
Reviewed balance of Bone Medical at 31 December 2015		(26,628,457)	(26,628,457)
Audited Accounts of Botanix at 31 December 2015		(160,832)	(160,832)
Pro forma adjustments:			
Amount recognised as ASX listing expense upon Acquisition (see Note 7)		(927,141)	(927,141)
Cost of the Offer		(40,000)	(40,000)
Elimination of Bone Medical's accumulated losses upon Acquisition (see Note 7)		26,628,457	26,628,457
		25,661,316	25,661,316
Pro forma Balance		(1,127,973)	(1,127,973)

NOTE 7. ACQUISITION ACCOUNTING

Provisional accounting for the Acquisition

A summary of the details pertaining to the proposed Acquisition as included in our Report is set out below. These details have been determined for the purposes of the pro forma adjustments as at 31 December 2015 and will require re-determination as at the successful acquisition date, which may result in changes to the values set out below.

Under the Acquisition, Bone Medical will acquire 100% of the issued capital in Botanix by issuing a total of 153.06 million ordinary shares to the Botanix shareholders in proportion with their existing holdings in Botanix.

Botanix shareholders will obtain a controlling interest in Bone Medical, equating to a controlling interest in the combined entity following the Acquisition. Botanix has thus been deemed the acquirer for accounting purposes as its shareholders will own approximately 66.43% (153,060,000/230,398,971) of the consolidated entity (prior to the shares issued in relation to the Offer). The Acquisition of Botanix by Bone Medical is not deemed to be a business combination as Bone Medical is not considered to be a business under AASB 3 *Business Combinations*.

As such the consolidation of these two companies is on the basis of the continuation of Botanix, with no fair value adjustments, whereby Botanix is deemed to be the accounting parent. Therefore the most appropriate treatment for the transaction is to account for it under AASB 2 Share Based Payments, whereby Botanix is deemed to have issued shares to Bone Medical shareholders in exchange for the net assets held by Bone medical.

In this instance, the value of the Bone Medical Shares provided has been determined as the notional number of equity instruments that the shareholders of Botanix would have to issue to Bone Medical in order to give the owners of Bone Medical the same percentage ownership in the combined entity. We have calculated this to be $1,546,779.

The pre-Acquisition equity balance of Bone Medical are eliminated against this increase in share capital upon consolidation and the balance is deemed to be the amount paid for the ASX listing status of Bone Medical, being $927,141, and treated as a share based payment.

The net assets acquired and amount recognised as an ASX listing expense are as follows:

NOTE 7. PROVISIONAL ACCOUNTING FOR THE ACQUISITION	Acquiree's carrying amount pre-Acquisition $
Net assets acquired:	
Cash and cash equivalents	598,363
Trade and other receivables - continuing operations	13,379
Trade and other receivables - discontinued operations	92,320
Trade and other payables	(59,499)
Trade and other payables - discontinued operations	(24,925)
Net assets of Bone Medical as at 31 December 2015	**619,638**
Fair value of Bone Medical's consideration	1,546,779
Total net assets acquired on Acquisition	619,638
Amount recognised as ASX listing expense upon Acquisition	**927,141**

NOTE 8. RELATED PARTY DISCLOSURES

Transactions with Related Parties and Directors Interests are disclosed in the Prospectus.

NOTE 9. COMMITMENTS AND CONTINGENCIES

At the date of the report no material commitments or contingent liabilities exist that we are aware of, other than those disclosed in the Prospectus.

APPENDIX 4

BONE MEDICAL LIMITED (TO BE RENAMED BOTANIX PHARMACEUTICALS LIMITED)

HISTORICAL FINANCIAL INFORMATION OF BONE MEDICAL LIMITED

Consolidated Statement of Profit or Loss and Other Comprehensive Income	Audited for the year ended 30-Jun-15 $	Audited for the year ended 30-Jun-14 $
Revenue from continuing operations		
Debt forgiveness	-	100,663
Finance revenue	43,090	16,844
Total revenue	**43,090**	**117,507**
Expenses		
Employee benefits expense	(146,728)	(174,614)
Financial charges expense	(1,027)	(1,321)
Finder fee	-	(150,000)
Foreign exchange losses	(14,133)	(30,476)
Other expenses	(102,482)	(82,307)
Professional consultant expense	(306,169)	(252,859)
Provision for doubtful debt expense	-	-
Total expenses	**(570,539)**	**(691,577)**
Loss before income tax expense	**(527,449)**	**(574,070)**
Income tax benefit/(expense)	-	-
Loss after income tax for the period on continuing operations	**(527,449)**	**(574,070)**
Profit/(Loss) for the period from discontinued operations	(487,092)	(556,966)
Loss after income tax for the period ended	**(1,014,541)**	**(1,131,036)**
Total comprehensive loss for the period attributed to shareholders continued operations	**(1,014,541)**	**(1,131,036)**

Consolidated Statement of Financial Position	Audited as at 30-Jun-15 $	Audited as at 30-Jun-14 $
CURRENT ASSETS		
Cash and cash equivalents	1,308,734	2,512,591
Trade and other receivables - continuing operations	11,831	40,778
Trade and other receivables - discontinued operations	-	-
TOTAL CURRENT ASSETS	**1,320,565**	**2,553,369**
TOTAL ASSETS	**1,320,565**	**2,553,369**
CURRENT LIABILITIES		
Trade and other payables	66,658	163,251
Trade and other payables - discontinued operations	24,925	146,595
TOTAL CURRENT LIABILITES	**91,583**	**309,846**
TOTAL LIABILITIES	**91,583**	**309,846**
NET ASSETS/(LIABILITES)	**1,228,982**	**2,243,523**
EQUITY		
Share capital	25,657,926	25,657,926
Reserves	1,780,391	1,780,391
Accumulated losses	(26,209,335)	(25,194,794)
TOTAL EQUITY	**1,228,982**	**2,243,523**

7. Risk Factors

As with any investment, there are risks involved. This Section identifies the major areas of risk associated with an investment in the Company, but should not be taken as an exhaustive list of the risk factors to which the Company and its Shareholders are exposed. Potential investors should read the entire Prospectus and consult their professional advisers before deciding whether to apply for Shares.

7.1 Risks specific to the change in nature and scale of activities

(a) **Reinstatement of Shares to quotation on ASX**

The Acquisition of Botanix Pharmaceuticals constitutes a significant change in the nature and scale of the Company's activities and the Company needs to re-comply with Chapters 1 and 2 of the Listing Rules as if it were seeking admission to the official list of ASX.

There is a risk that the Company may not be able to meet the requirements of ASX for re-quotation of its Shares. Should this occur, the Shares will not be able to be traded on the ASX until such time as those requirements can be met, if at all. Shareholders may be prevented from trading their Shares, should the Company be suspended until such time as it does re-comply with the Listing Rules.

(b) **Dilution risk**

The Company currently has 257,796,569 Shares on issue (pre-Consolidation). On Completion of the Acquisition, the Company proposes to issue Shares as required pursuant to the Acquisition Agreement and as part of the Offer.

On issue of the Vendors' Consideration Shares and the Shares under the Offer (assuming no Options are exercised and there is no Shares issued pursuant to the Oversubscription), the existing Shareholders will retain approximately 20.33% of the issued capital of the Company, with the Botanix Vendors holding 40.24%, the investors under the Offer holding 39.43% of the issued capital of the Company.

If Shares are issued pursuant to the Oversubscription, the existing Shareholders will retain approximately 19.07% of the issued capital of the Company, with the Botanix Vendors holding 37.77% and the investors under the Offer holding 43.16% of the issued capital of the Company.

There is also a risk that the interests of Shareholders will be further diluted as a result of future capital raisings required in order to fund the development of the business.

(c) **Liquidity risk**

On Completion of the Acquisition, the Company proposes to issue a total of 153,060,000 Shares to the Botanix Vendors (on a post-Consolidation basis). The Consideration Shares will be subject to ASX-imposed escrow restrictions.

This could be considered an increased liquidity risk as a large portion of issued capital will not be able to be traded freely for a period of time due to escrow restrictions.

(d) **Contractual risk**

Pursuant to the Acquisition Agreement, the Company has agreed to acquire 100% of the issued share capital of Botanix Pharmaceuticals subject to the fulfilment of certain conditions precedent.

The ability of the Company to achieve its stated objectives will depend on the parties' performance of their obligations under the Acquisition Agreement. If any party defaults in the performance of its obligations, it may be necessary for the Company to approach a court to seek a legal remedy, which can be costly.

(e) **Integration risk of the Acquisition**

The operating results of the Company will depend on the success of management in integrating the Acquisition of Botanix Pharmaceuticals. There is no guarantee that the Company will be able to integrate this new Acquisition into the Company successfully, or that any economic benefits will be able to be realised from the integration. There is a risk that the Company's future profitability and prospects could be adversely impacted if successful integration is not achieved in an orderly and timely fashion.

7.2 Risks specific to Botanix Pharmaceuticals business and its industry

(a) **Innovative technological development – early stage**

Botanix Pharmaceuticals' product candidates are at a relatively early development stage and substantial formulation development and clinical development is necessary to progress these products. No guarantee can be provided that the proposed formulation development or clinical work will be successful or result in an approved product that can be marketed and sold.

There is limited evidence and research related to cannabidiol and skin diseases. While the limited evidence and research represents an opportunity for the Merged Group, in that there is limited known competition for the progression of an innovative product, it also represents a challenge in that there are limited results to support that hypothesis. Similarly, no studies have been conducted with Botanix Pharmaceuticals' product candidate compounds in in vitro (performing a given procedure in a controlled environment outside of a living organism) and in vivo (performing a given procedure using a whole, living organism) models of skin diseases.

(b) **Manufacturing and production risks**

Botanix Pharmaceuticals' manufacturing process for the BTX1503 acne product candidate and its other pipeline products has not yet been scaled up to commercial scale. Therefore production of GMP clinical trial material and commercial product using the Permetrex™ technology has an element of risk as the manufacturing technology is scaled up from the current formulation development scale.

Botanix Pharmaceuticals has engaged a third party GMP contract manufacturer for the synthetic cannabidiol, which is the active ingredient in the Botanix Pharmaceuticals' product candidates. The manufacturing of synthetic cannabidiol is very complex and associated with uncertainties, in relation to issues such as the price of manufacture, impurities and manufacturing capacity for large-scale manufacturing. The manufacturer of synthetic cannabidiol has significant experience in the manufacture of current

GMP commercial quantities of many products. However, should difficulties or delays occur in the GMP production of synthetic cannabidiol be interrupted for any reason, the timing of the clinical development and/or commercialisation as outlined in this Prospectus may be affected and may have an adverse impact on the financial performance of the Merged Group.

(c) **Clinical trials risks**

The Merged Group's product development plans include the conduct of human clinical trials initially with BTX1503 and then the balance of the pipeline product candidates. Such trials are expensive and can be difficult to design and implement, in part because they are subject to rigorous regulatory requirements.

Even if the results of the Merged Group's initial clinical trials for BTX1503 are favourable, the following clinical trials for Botanix Pharmaceuticals' other products under development are expected to continue for several years and may take significantly longer to complete.

In addition, regulatory authorities may suspend, delay or terminate the Merged Group's trials at any time, or suspend or terminate the registrations and quota allotments it requires, in order to procure and handle controlled substances, for various reasons.

Generally, there is a high rate of failure for drug candidates proceeding through clinical trials. Further, even if the Merged Group views the results of a clinical trial to be positive, the FDA or other regulatory authorities may disagree with the Merged Group's interpretation of the data.

Clinical trials of the Merged Group's products could take several years to complete. Clinical development of the Merged Group's products may fail for a number of other reasons, including lack of efficacy or adverse side effects. Failure can occur at any stage of the trials, requiring the Merged Group to abandon or repeat clinical trials. The Merged Group and/or the relevant regulatory authorities, HRECs and Institutions where the clinical trials are conducted, may suspend the Merged Group's clinical trials at any time if it appears that the trials are exposing the trial participants and or the staff involved in conducting the clinical trial to unacceptable health risks. Alternatively there is the risk that despite conducting the relevant clinical trial in compliance with regulatory requirements, the results of the trial do not support any further development or result in a rejection by the relevant regulator. As a result Merged Group may fail to commercialise or out-license any products.

(d) **Licensing and regulatory risks**

Australia is a signatory to the United Nations *Single Convention on Narcotic Drugs 1961* (**Convention**). The parties to the Convention undertake to limit the production, manufacture, export, import, distribution, trade, use and possession of narcotic drugs and to provide a system of controls permitting their use for medical and scientific purposes.

Australia has several Commonwealth laws that apply to cannabis and cannabis extracts or synthetic versions thereof. The *Narcotic Drugs Act 1967* (Cth) regulates the manufacture of narcotic products, including cannabis and its derivatives, and the *Therapeutic Goods Act 1989* (Cth), which is administered by the TGA, provides a national system regulating the import, export, manufacture and supply of medicines in Australia.

In addition, the *Customs (Prohibited Imports) Regulations 1956* (Cth) (**Regulations**) establish a system of licences and permits for the importation of cannabis and its derivatives for medical or scientific purposes. Cannabinoids, including synthetic cannabidiol, are listed in Schedule 4 of the Regulations, meaning that a licence and permit from the Secretary of the Department of Health is required before they can be imported into Australia.

It is intended that the Merged Group will apply for a licence and the necessary permits to import BTX1503 into Australia for clinical trial purposes.

In Australia, the approval process for commencing Phase 1 and 2 clinical trials resides with the Human Research Ethics Committee (**HREC**). Prior to commencing a clinical trial, a sponsor must submit to the HREC a study protocol, an investigator's brochure and a template informed consent for the clinical trial.

Once a study is approved by the HREC, the Sponsor is required to complete an online CTN form on the TGA Businesses Services website, which notifies the TGA that the HREC has evaluated and approved the scientific merit of the trial and approved it on ethical grounds. Once the notification is acknowledged (and a unique clinical trial number issued), the trial may commence.

It is intended that the Merged Group will submit a CTN application to seek HREC approval for its first clinical trials in Australia for BTX1503.

Following the successful completion of clinical trials, only products which are listed, registered or included in the Australian Register of Therapeutic Goods (**ARTG**) can be sold in Australia.

Cannadidiol, when used in at least 98% purity in preparations for therapeutic use, is listed in Schedule 4 of the *Standard for the Uniform Scheduling of Medicines and Poisons*, meaning that any medicine which contains cannabidiol will be regulated as a prescription medicine in Australia. Prescription medicines must be registered in the ARTG before they can be prescribed to patients in Australia. To obtain approval for registration, the application must submit pharmaceutical, toxicological, pharmacological and clinical information for evaluation. This information is carefully evaluated by the TGA to establish the quality, safety and efficacy of the product for the proposed indications.

If the Merged Group's plans to obtain HREC approval for its CTN trials in Australia are not successful, the Merged Group will need to conduct its clinical studies in the United States (in which case it will need to comply with the relevant FDA processes and associated legal requirements) or another jurisdiction (in which case it will need to comply with the relevant local regulatory processes and associated legal requirements).

As with any company involved in developing pharmaceutical products, for each product, the Merged Group and its partners will need to obtain regulatory approval in each country in which they intend to market the product in question. There is a risk that products developed by the Merged Group may not satisfy requirements for regulatory marketing approval and/or the approval process may take longer than expected.

It is also intended for the Merged Group to later file an IND application with the FDA to conduct later stage clinical trials in the United States.

The Existing Directors and Proposed Directors believe that the Merged Group will have the necessary documentation and data to support a positive outcome from these filings. However, there can be no guarantee that the HRECs will approve the trials and that the FDA will allow the Merged Group to undertake the planned trials in the manner proposed by Botanix Pharmaceuticals or potentially at all. As with any company involved in developing pharmaceutical products, for each product, the Merged Group and its partners will need to obtain regulatory approval in each country in which they intend to market the product in question. These products may not satisfy requirements for regulatory marketing approval and/or the approval process may take longer than expected.

(e) **Product liability risks**

As a manufacturer and supplier of products designed to be exposed to humans, the Merged Group will face an inherent risk of exposure to product liability claims, regulatory action and litigation. These risks will arise if the Merged Group's products are alleged to have caused significant loss or injury. In addition, the manufacture of the Merged Group's skin products, once developed, involves the risk of injury to consumers due to tampering by unauthorised third parties or product contamination.

Previously unknown adverse reaction resulting from human exposure to the Merged Group's skin products alone or in combination with other medication or substances could occur. A product liability claim or regulatory action against the Merged Group could result in increased costs, could adversely affect the Merged Group's reputation with its clients and consumers generally and could have a material adverse effect on the Merged Group's results of operations and financial conditions.

(f) **Competition risks**

The pharmaceutical industry is highly competitive and competitors around the world may commercialise products that may compete with the Merged Group's products, or create technology which competes with the Permetrex™ drug delivery technology or any of the Merged Group's product candidates. The Merged Group's ability to compete in these markets may also be limited by its relatively small human resource base, access to capital, speed of clinical development or other factors.

(g) **Intellectual property risks**

The Merged Group will heavily rely for its success on its ability to obtain and maintain patent protection for its products and the Permetrex™ drug delivery platform. The process of obtaining patent protection for products and technology is highly uncertain and the process involves complex and continually evolving factual and legal questions. The successful prosecution of the Merged Group's existing patent applications and future patent applications will be critical to the protection of the products.

The Merged Group may also be forced to litigate to enforce or defend its intellectual property rights against infringement and unauthorised use by competitors, and to protect its trade secrets. In so doing, the Merged Group may place its intellectual property at risk of being invalidated, unenforceable, limited or narrowed in scope. Further, an adverse result in any litigation or defence proceedings may place pending applications at risk of non-issuance.

In addition, if Dr Cooper (the licensor of the Permetrex™ technology) fails to enforce or defend their intellectual property rights, this may adversely affect the Merged Group's ability to develop and commercialise its product candidates and prevent competitors from making, using, and selling competing products. Any such litigation could be very costly and could distract the Merged Group's management from focusing on operating its business. The existence and/or outcome of any such litigation could harm its business, results of operations and financial condition.

(h) **Permetrex™ Licence risks**

Botanix Pharmaceuticals relies on the Permetrex™ Licence Agreement, an exclusive licence agreement from Dr Cooper to use the Permetrex™ technology in order to develop its products. Any breach of this agreement by the Merged Group may prohibit the Merged Group from being able to develop and commercialise provide its products (once developed) and the Merged Group's operations and business would be adversely affected. The Merged Group will have to monitor its compliance with the Permetrex™ Licence Agreement on an ongoing basis.

(i) **Currency risks**

Botanix Pharmaceuticals carries on the substantial part of its business in the United States and it is intended that the Merged Group will continue its operations there.

The Merged Group's budgets have been prepared in United States dollars and currency fluctuations may therefore impact the Merged Group's ability to fund the programs that it has proposed in this Prospectus. The Merged Group plans to hedge its exposure to currency fluctuations, while at the same time attempt to maximise the amount of interest that is available on the funds deposited and not immediately used following the Offer.

(j) **Healthcare insurers and reimbursement risks**

In both domestic and foreign markets, sales of prescription pharmaceutical products are likely to depend in part upon the availability and amounts of reimbursement from third party health care payer organisations, including government agencies, private health care insurers and other health care payers, such as health maintenance organisations and self-insured employee plans. None of Botanix Pharmaceuticals' products are currently approved or reimbursed.

There is considerable pressure to reduce the cost of therapeutic products, and government and other third party payers are increasingly attempting to contain health care costs by limiting both coverage and the level of reimbursement for therapeutic products, and by refusing, in some cases, to provide any coverage for uses of approved products for disease indications for which the relevant regulatory authority has not granted marketing approval. No assurance can be given that reimbursement will be provided by such payers at all or without substantial delay, or, if such reimbursement is provided, that the approved reimbursement amounts will be sufficient to enable the Merged Group to sell products it developed on a profitable basis.

(k) **Reliance of key personnel and contractors risks**

The responsibility of overseeing the day-to-day operations and the strategic management of Botanix Pharmaceuticals depends substantially on its senior

management and its key personnel. There can be no assurance given that there will be no detrimental impact on the Merged Group if one or more of these employees cease their engagement with the Merged Group. There is no guarantee that the Merged Group will be able to attract and retain suitably qualified personnel, and a failure to do so could materially and adversely affect the business, operating results and financial prospects.

It is intended that the Merged Group will operate a significant amount of its key activities through a series of contractual relationships with independent contractors and suppliers. Botanix Pharmaceuticals relies on, and the Merged Group will continue to rely on a number of Botanix Pharmaceuticals' contractors for their expertise in formulation development, manufacturing, clinical trial conduct and regulatory matters. All of Botanix Pharmaceuticals' contracts carry a risk if the third parties do not adequately comply with its or their respective contractual rights and obligations. Such failure could lead to termination and/or significant damage to the Merged Group's product development activities.

(l) **Limited operating history**

Botanix Pharmaceuticals has limited operating history, and there is therefore uncertainty to the business of Botanix Pharmaceuticals. Investors should consider Botanix Pharmaceuticals' prospects in light of its limited financial history. In addition, there is no guarantee that the Merged Group will be able to successfully develop or commercialise its products, and if it is unable to do so it will not be able to realise any revenues in the future.

(m) **Reliance on third parties**

The Merged Group will be required to outsource key components of the development of its products (including, amongst other things, certain components of the clinical trial and GMP manufacturing processes).

There is no guarantee that such suppliers, consultants or other experts will be readily available or available on reasonable terms, within the Merged Group's expenditure forecasts.

7.3 General Risks

(a) **Additional requirements for capital**

The funds raised under the Offer are considered sufficient to meet the immediate objectives of the Merged Group. Additional funding may be required in the event costs exceed the Company's estimates and to effectively implement its business and operations plans in the future (including in relation to Botanix Pharmaceuticals), to take advantage of opportunities for acquisitions, joint ventures or other business opportunities, and to meet any unanticipated liabilities or expenses which the Company may incur. If such events occur, additional financing will be required.

The Company may seek to raise further funds through equity or debt financing, joint ventures, licensing arrangements, production sharing arrangements or other means. Failure to obtain sufficient financing for the Company's activities and future projects may result in delay and indefinite postponement of its activities and potential research and development programs. There can be no assurance that additional finance will be available when needed or, if

available, the terms of the financing might not be favourable to the Company and might involve substantial dilution to Shareholders.

(b) **Foreign exchange risks**

It is expected that the Merged Group will have costs and expenses in other jurisdictions that will likely be denominated in foreign currency. Accordingly, the depreciation and/or the appreciation of the relevant foreign currency relative to the Australian currency would result in a translation loss on consolidation, which is taken directly to shareholder equity. Any depreciation of the foreign currency relative to the Australian currency may result in lower than anticipated revenue, profit and earning. The Merged Group could be affected on an ongoing basis by foreign exchange risks between the Australian dollar and the relevant foreign currency, and will have to monitor this risk on an ongoing basis. It is intended that the Merged Group will manage its exposure to currency fluctuations through the deposit of planned expenditures in the relevant currency in the relevant jurisdiction, while at the same time attempt to maximise the amount of interest that is available on the funds deposited and not immediately used following the Offers.

(c) **Economic risks**

General economic conditions, introduction of tax reform, new legislation, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Company's business activities and potential research and development programs, as well as on their ability to fund those activities.

(d) **Force majeure**

The Company's projects now or in the future may be adversely affected by risks outside the control of the Company, including labour unrest, civil disorder, war, subversive activities or sabotage, fires, floods, explosions or other catastrophes, epidemics or quarantine restrictions.

(e) **Insurance risks**

The Company intends to insure its operations and those of Botanix Pharmaceuticals, as required in accordance with industry practice. However, in certain circumstances, such insurance may not be of a nature or level to provide adequate insurance cover. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of the Company effected.

(f) **Litigation risks**

The Company is exposed to possible litigation risks including, but not limited to, intellectual property and patent claims. Further, the Company may be involved in disputes with other parties in the future which may result in litigation. Any such claim or dispute, if proven, may impact adversely on the Company's operations, financial performance and financial position. The Company is not currently engaged in any litigation.

(g) **Dependence on outside parties**

The Company may pursue a strategy that forms strategic business relationships with other organisations in relation to potential products and services. There can be no assurance that the Company will be able to attract such prospective

organisations and to negotiate appropriate terms and conditions with these organisations, or that any potential agreements with such organisations will be complied with.

(h) **Market conditions**

Share market conditions may affect the value of the Company's Securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

(i) general economic outlook;

(ii) introduction of tax reform or other new legislation;

(iii) interest rates and inflation rates;

(iv) changes in investor sentiment toward particular market sectors;

(v) the demand for, and supply of, capital; and

(vi) terrorism or other hostilities.

The market price of securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and in particular technology stocks. Neither the Company nor the Directors warrant the future performance of the Company or any return to Shareholders arising from the transactions the subject of this Prospectus or otherwise.

(i) **Taxation**

The acquisition and disposal of Shares will have tax consequences, which will differ depending on the individual financial affairs of each investor. All potential investors in the Company are urged to obtain independent financial advice about the consequences of acquiring Shares from a taxation point of view and generally.

To the maximum extent permitted by law, the Company, its officers and each of their respective advisers accept no liability and responsibility with respect to the taxation consequences of applying for Shares under this Prospectus.

8. Intellectual Property Expert's Report

INTELLECTUAL PROPERTY REPORT

Our Ref: 701410

26 April 2016

The Directors

Bone Medical Limited
16 Ord Street
West Perth, WA 6005

Dear Directors,

This Report has been prepared for Bone Medical Limited's ("BML") inclusion in a Prospectus required for lodgement at the Australian Securities and Investments Commission for the purpose of raising funds through the issue of securities.

We are informed that BML proposes to acquire 100% of the shares in Botanix Pharmaceutical, Inc. ("BTX") and this report considers and provides details of patent applications filed by BTX and intellectual property rights in-licensed by BTX from Dr Eugene Cooper.

1.0 Structure of Report

Section 2.0 provides background information relevant to the understanding of patent rights.
Section 3.0 identifies patent applications filed by BTX.
Section 4.0 identifies know-how and confidential information that form part of the intellectual property rights in-licensed from Dr Eugene Cooper by BTX.
Section 5.0 identifies trade mark applications filed by BTX.
Section 6.0 identifies the proprietorship of BTX's intellectual property rights.
Section 7.0 outlines the scope and limitations of this Report.
Sections 8.0 presents our Statement of Independence.

2.0 Patents – background information

Patents provide protection for certain new, non-obvious and useful inventions for a limited period. Patents may be granted in respect of new or improved products, compositions and processes in almost all areas of current scientific, commercial and industrial activities.

However, it is important to note that not all new or improved products are amenable to patent protection, and that there is considerable variation between jurisdictions in this regard.

Patent rights are typically national rather than trans-national and a patent must be obtained in each country where protection of an invention is required. A fundamental requirement of the patent system is that the invention be 'new' at the time of lodging a patent application. Newness in this sense is judged in relation to what was publicly known or used at the date of the application. Another requirement is for a distinct inventive advance over what was previously known. This means that valid patent protection cannot be obtained for obvious developments.

Pursuant to the Paris Convention, the filing of an initial patent application in, for example, Australia establishes a priority date for the invention in Australia and all other countries that are a party to this Convention, including countries such as the United States, Canada, New Zealand, Europe and Japan. The usual steps towards obtaining a patent in Australia and other countries in respect of an invention begin by filing a provisional application. The filing of a provisional application establishes the priority date in respect of the invention disclosed in the provisional specification.

Within twelve months from the date of the filing of the provisional application, a complete application must be lodged otherwise the provisional application, which remains pending for only one year, ceases to exist, along with the priority date set thereby. Thus, if no application is filed within one year of the provisional application, the priority date is no longer valid. Within the one year pendency of the provisional application, in order to obtain protection in other countries, the applicant may file separate national patent applications in each of the countries in which protection is required. Alternatively, the applicant may file a single international application under the provisions of the Patent Cooperation Treaty (generally referred to as a 'PCT' application or an 'International' application) in which it is possible to designate countries or regions in which protection is required. The International application itself does not mature into a worldwide patent, but at the end of the international phase, steps can be taken to file the application into any or all of the countries or regions designated in the original International application.

Regional patent applications, such as a European regional application, may also be filed. A European application may designate any or all countries that are a party to the European Patent Convention. The European patent application is processed centrally and in a single language and, if ultimately successful, can mature into a granted European patent, which must then be validated in each country in which protection is sought, some of which require

translation into that country's native language. The term 'European patent' thus actually constitutes a bundle of national patent rights, each of which can be enforced separately through national Courts.

The registration of a patent right includes a number of steps, the timings of which are widely variable from jurisdiction to jurisdiction, and also may vary greatly across different types of technology applications within one jurisdiction's examination office. In some jurisdictions, after a patent application is filed the application must be examined for substantive patentability before registration.

In Australia and most other countries, patent rights may be kept in force for a period of 20 years from the date of filing of the complete application on which the patent is granted.

A granted patent enables the patentee to prevent others from performing the invention claimed therein. A granted patent does not guarantee that performing the invention does not infringe the rights of other patent owners.

In most countries, a patent application is subjected to examination for novelty and obviousness (and other grounds) before a patent is granted. There can be no assurance that each of the patent applications set out below will result in the grant of a patent, or that the scope of protection provided by any granted patent will be identical to the scope of the application as originally filed, or that the granted patent will effectively inhibit competition. Furthermore, due to differences in examination between countries and regions and scope of available protection, the scope of protection provided by a granted patent in one jurisdiction may differ from that provided by a granted patent in another jurisdiction.

Further, it should be noted that the grant of a patent does not guarantee validity of that patent since it may be revoked by a court on the grounds of invalidity at any time during its life. If none of the claims of a granted patent are valid, then the patent is unenforceable. For example, relevant prior disclosures may be discovered that were not raised during examination, which may limit the scope of patent protection sought, perhaps to a very narrow field. In the preparation of this report, we have not assessed the validity of the granted patents or the likelihood that the pending applications will grant with commercially effective patent claims.

3.0 Patent Applications filed by BTX

The patent applications listed in this Section 3.0 are provisional applications and reserve priority to claim methods of treating acne by the topical administration of cannabinoids. These

provisional applications also reserve priority to claim pharmaceutical compositions that contain cannabinoids. The provisional applications are:

United States Provisional Application No. 62/318,397
Filed: 5 April 2016
Entitled: "Topical composition and use thereof for the treatment of acne"
Applicant: Botanix Pharmaceuticals, Inc.
Inventor: Eugene R. Cooper

Australian Provisional Application No. 2016901254
Filed: 5 April 2016
Entitled: "Topical composition and use thereof for the treatment of acne"
Applicant: Botanix Pharmaceuticals, Inc.
Inventor: Eugene R. Cooper

As explained in Section 2.0 above, under various international regimes, these US and Australian Provisional Patent Applications afford BTX the opportunity to file patent applications worldwide, while receiving the benefit of the filing date of the US and Australian Provisional Patent Applications.

The US and Australian Provisional Patent Applications were prepared with the co-operation of Dr Cooper, they both list Dr Cooper as the inventor and were filed with the applicant name, Botanix Pharmaceuticals, Inc. The contents of these US and Australian Provisional Patent Applications are not currently available to the public, and will not be so until approximately 18 months from the filing date of the US and Australian Provisional Patent Applications, and then only if BTX (or its successors in title) elects to file patent applications claiming priority from the US and Australian Provisional Patent Applications. This aspect of the international patent regime potentially affords BTX a competitive advantage, and we are instructed not to disclose the content of the US and Australian Provisional Patent Applications in this Report.

The expiry date of this family of patents will be approximately 5 April 2037. This is based on the latest possible filing date under the Paris Convention. This estimate does not make allowances for any patent term adjustments or extensions (such as pharmaceutical patent term extensions which might be available to BTX).

This Report is based on information generated by searches undertaken on 5 April 2016 and Wrays is not aware of any material changes expected to occur to the status of matters discussed below, except for normal changes in the course of standard patent prosecution. The status summary of patent applications is correct to the best of our knowledge after conducting reasonable due diligence and research, at the date of this Report.

Please refer to Section 6.0 for more information on the validity of BTX's claim to the ownership of the US and AU Provisional Patent Applications.

4.0 Know-how and confidential information that form part of the intellectual property rights in-licensed from Dr Eugene Cooper by BTX

Know-how and confidential information in the nature of trade secrets can be protected by a person or company, so long as such information is not already in the public domain and is precluded from disclosure via appropriate obligations of confidence (whether arising through contract or operation of common law). The right to prevent disclosure of know-how and confidential information can typically only be exercised by the person or company to whom the obligation of confidence is owed. Know-how and confidential information are not "property" per se, but rights to protect know-how and confidential information can be assigned or licensed through transfer of the benefit of existing obligations of confidence.

Know-how and confidential information disclosed to a company's employees and contractors should be protected by express obligations of confidence in employment or contractor agreements, although employees will also be subject to additional (but less robust) common law obligations of confidence arising by reason of the employer/employee relationship. Practical safeguards and protocols should also be implemented to protect know-how and confidential information, including trade secrets.

On May 1, 2015, Botanix Pharmaceuticals, Inc. and Dr Eugene Cooper executed a Collaboration and License Agreement (the Agreement) whereby certain rights to know-how and confidential information was licensed from Dr Cooper to BTX. Under the terms of the Agreement, Dr Cooper licenses to BTX his intellectual property rights to know-how and confidential information pertaining to methods and compositions for delivering cannabidiols onto the skin for pharmaceutical and cosmetic treatment. The terms of the Agreement include, amongst many, the subject matter of the know-how, the territory of the license, exclusivity, the field of the license and termination. The Agreement is subject to the laws of Delaware. We are not aware of any broad enforceability issues that would render the Agreement unenforceable under the laws of Delaware.

BTX has written and put into effect policies to control and manage this know-how in-licensed from Dr Cooper as well as its own know-how and confidential information. Those policies have been codified in the following internal BTX documentation:

Acceptable Use of Technology Resources, Policy No. 14, Issued January 23, 2016
Protection of Trade Secrets and Confidential Information Policy, Policy No. 13, Issued January 23, 2016
Standard Operating Procedure for Protection of BTX Trade Secrets, SOP No. 16-12, Issued January 23, 2016

Whilst Wrays has not reviewed the template confidentiality agreements (CDAs) and Proprietary Information and Inventions Agreements (PIIAs) and other documents referred to in these SOPs and policies, these policies appear to be consistent with best industry practice on the management of know-how and confidential information.

5.0 Trade Mark applications filed by BTX

The trade mark applications listed in Section 5.0 are both pending and awaiting examination by the Australian Trade Marks Office. The trade mark applications are:

Australian Trade Mark Application No. 1760453
Filed: March 22, 2016
Device:

botanix
PHARMACEUTICALS

Applicant: Botanix Pharmaceuticals, Inc.

Australian Trade Mark Application No. 1760473
Filed: March 22, 2016
Name: BOTANIX PHARMACEUTICALS
Applicant: Botanix Pharmaceuticals, Inc.

Under the Paris Convention and Madrid Protocol international regimes, these Australian Trade Mark Applications afford BTX with the opportunity to file corresponding trade mark applications in member countries to such conventions within 6 months of their filing date (i.e., until 22 September 2016) claiming the priority filing date of 22 March 2016.

We have not been instructed to advise on whether BTX's use of the trade mark applications may infringe the rights of third parties.

6.0 Proprietorship

Patents

A patent for an invention may only be granted to the inventor(s) or to a person (including a legal entity) who has entitlement to the invention by way of assignment, employment contract or other means. As discussed above under Section 3.0, Dr Eugene Cooper is listed as the inventor on the Australian and US Provisional Patent Applications. BTX's claim to ownership to these patent applications is dependent on the enforceability of the Collaboration and License Agreement executed on May 1, 2015 between Botanix Pharmaceuticals, Inc. and Dr Eugene Cooper ("the Agreement"). As discussed in Section 4.0, we are not aware of any broad enforceability issues that would render the Agreement unenforceable under the laws of Delaware.

Trade Secrets and Know-How

As discussed above in Section 4.0, on May 1, 2015, BTX and Dr Eugene Cooper executed the Agreement to license certain know-how and confidential information. In the preparation of this Report, we have not assessed Dr Cooper's underlying entitlement to claim and on-license the claimed trade secrets and know-how under the Agreement.

Trade Marks

A trade mark may only be granted to the person who has entitlement to the trade mark by way of first commercial use (or filing) to distinguish the trade origin of a good or service. In the preparation of this report, we have not assessed the validity and strength of BTX's claim to title to the trade mark applications listed in Section 5.0. We are not aware of any issues that may invalidate BTX's claim to ownership of the trade mark applications listed in Section 5.0.

7.0 Limitations of this Report

This Report is not to be construed as a legal opinion as to the registrability or validity of the BTX patent applications, know-how or trade marks.

This Report does not provide any indication that the subject inventions may be commercially exploited in any jurisdiction without risk of infringement of existing patents to other parties. It is important to note that the granting of a patent does not guarantee that the patentee has freedom to operate the invention claimed in the patent. It may be that working of a patented invention is prevented by the existence of another patent. In the preparation of this report, we have not assessed whether or not the commercialisation of the invention described in the BTX US and Australian Provisional Patent Applications and know-how will infringe third party patent rights.

The searches conducted for this Report and the results of which are in part relied upon in this Report, have been substantially computer based and as such, would have been limited in terms of the time periods and the geographical areas covered. All searches are subject to the accuracy and scope of the records searched as well as to the indexing and classification of those records.

In most countries, patent applications undergo an independent search and examination by the local Patent Office, the results of which are not binding in other jurisdictions. Similarly, international PCT search and examination reports are not binding on national patent applications during subsequent examination in the national phase. Such reports should therefore be regarded as indicative only and not determinative of patentability. It should also be appreciated that the grant of a patent in one country provides no guarantee that patents will grant in other jurisdictions.

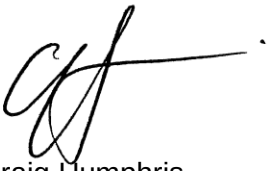
This Report is not to be construed as a representing that the claims of the US and Australian Provisional Patent Applications will be granted in their current form. It is often necessary during the examination of a patent application to define the invention more specifically by amendment of the claims, so as to distinguish relevant prior art. As a result of this process, there may be variations in the claims between countries, reflecting in part the different examination procedures and threshold requirements for patentability, according to national laws. Whilst this is a relatively standard procedure, in certain circumstances, such amendments may affect the scope and hence the commercial significance of the resultant patent protection.

8.0 Statement of Independence

Wrays, established in 1920, is an Australian intellectual property law firm, proudly representing a significant number of Australian and international businesses. Neither Wrays nor any of its Directors or Principals has any entitlement to any securities in Bone Medical Limited, or has any other interest in the promotion of Bone Medical Limited. Furthermore, the payment of fees to Wrays for the preparation of this Report, is not contingent upon Bone Medical Limited successfully raising funds through the issue of securities.

We have given our consent to the issue of the Prospectus with this Report appearing therein.

Yours sincerely
WRAYS



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9. Directors, Key Management and Corporate Governance

9.1 Board of Directors

In accordance with the terms of the Acquisition Agreement and with effect from Completion of the Acquisition, Messrs Phillip Wingate and John Hannaford will retire as Directors of the Company, and three nominees of Botanix Pharmaceuticals, Mr Graham Griffiths, Mr Matthew Callahan and Dr William Bosch, will be appointed to the Board of the Company. Mr Robert Towner will remain as a Non-Executive Director of the Company and Mr Phillip Wingate will remain as Company Secretary.

Upon Completion of the Acquisition, the new Board of the Company will comprise:

(a) Mr Graham Griffiths - Non-Executive Director and Chairman;

(b) Mr Matthew Callahan – Executive Director;

(c) Dr William Bosch - Executive Director/Chief Scientific Adviser; and

(d) Mr Robert Towner – Non-Executive Director.

9.2 Director profiles for the Existing Board

Details of the Existing Directors comprising the Board upon until Completion of the Acquisition are set out below.

(a) **Robert Towner**
Non-Executive Director and Chairman

Mr Towner has over 20 years' corporate advisory and executive experience in the financial markets. Mr Towner is the founder and sole director of Cornerstone Corporate Pty Ltd, a corporate advisory company and has served as a board member of publicly listed and unlisted companies. Mr Towner's skills include maintaining board awareness of financial markets, corporate governance, capital structuring and working capital requirements. In addition, Mr Towner has considerable experience in public and private capital raising initiatives. Mr Towner has demonstrated the ability to build a successful life science company. From 2004, Mr Towner was a founding Executive Director of ASX listed bioMD Limited. In 2011, Mr Towner played a major role in the merger of bioMD Limited, with then-private Allied Health Care Limited to create Admedus Limited (ASX: AHZ), a diverse healthcare company with a market capitalisation of $200 million. Mr Towner is also an executive director of an ASX listed company Triangle Energy (Global) Limited.

(b) **Phillip Wingate**
Non-Executive Director and Company Secretary

Mr Wingate holds a Bachelor of Commerce Degree from Curtin University Australia and is an associate of the Institute of Chartered Accountants in Australia. After graduating from university, he started his career in commercial and management accounting with a large private construction group. Since 2008, Mr Wingate has been involved in a number of company secretarial positions and ASX junior transactions. Mr Wingate has been closely involved with the mining sector in Western Australia and has a strong financial and management reporting background. Mr Wingate is also Company Secretary of ASX listed companies Orinoco Gold Limited and Panorama Synergy Limited.

(c) **John Hannaford**
Non-Executive Director

Mr Hannaford has broad financial experience from several corporate roles in Australia, Asia and Europe with resources companies. Mr Hannaford is principal and director of corporate advisory firms Ventnor Capital Pty Ltd and Ventnor Securities Pty Ltd, which specialise in the provision of corporate and financial advice to junior resource companies. Mr Hannaford has also been involved with several ASX listings and has acted as director, company secretary and financial controller to several of these companies. Mr Hannaford graduated from the University of Western Australia with a Bachelor of Commerce degree in 1986, majoring in finance and economics. He qualified as a Chartered Accountant in 1990, gaining experience with the Arthur Andersen audit division in Perth and in Hong Kong. He completed a Diploma of Applied Finance and Investment with the Securities Institute of Australia and was admitted as an associate of the Institute in 2003. Mr Hannaford is also the non-executive chairman of an ASX listed company, Orinoco Gold Limited.

9.3 Director profiles for the Proposed Board

Details of the Proposed Directors who will comprise the Board upon Completion of the Acquisition are set out below.

(a) **Graham Griffiths**
Non-Executive Director and Chairman

Mr Griffiths has an executive career spanning 39 years in technology based companies, including various senior executive sales, marketing and product development positions with multi-nationals in the United States and Asia Pacific region respectively. In 2000, he became Managing Director of ASX listed company ipernica Ltd, a diversified technology and intellectual property commercialisation group, where he had overall responsibility for the company's operations including strategy, corporate governance, human resources, investor relations, partnership development and acquisitions, including nearmap.com (ASX:NEA).

His current non-executive directorships include:

- Pointerra Pty Ltd (online service provider for managing, distributing and visualising massive point cloud data sets);
- iintegrate Systems Pty Ltd, trading as Indji Systems (online service provider for managing the impact of natural phenomena on utility assets); and
- iperative Pty Ltd (specialist in monetising intellectual property).

Mr Griffiths has a Bachelor of Business (Accounting) degree and is a fellow of the Australian Institute of Company Directors.

(b) **Matthew Callahan**
Executive Director

Mr Callahan is an experienced life sciences executive based in Philadelphia. He is the founding CEO of iCeutica Inc and a co-inventor of some of the technologies that comprise the SoluMatrix Fine Particle Technology™ drug delivery platform that iCeutica uses to develop new

pharmaceuticals. iCeutica has developed 3 products to date that have received FDA approval. He has more than 20 years legal, intellectual property and investment management experience and is also a director of Orthocell Limited (ASX:OCC) and Glycan Bioscience LLC.

Mr Callahan has worked as an investment director for two venture capital firms investing in life sciences, clean technology and other sectors and was General Manager and General Counsel with Australian listed technology and licensing company ipernica, now Nearmap (ASX:NEA), where he was responsible for the licensing programs that generated more than $120 million in revenue.

(c) **Dr H. William Bosch**
Executive Director/Chief Scientific Adviser

Dr Bosch is a seasoned pharmaceutical executive with more than 20 years of experience in the industry, focusing on applications of nanotechnology to drug product development. Dr Bosch also works with iCeutica Inc and is a co-inventor of the SoluMatrix™ technology and has been instrumental in the development and scale up of the platform and the development of the 3 FDA approved products that use that drug delivery technology.

Before iCeutica, he was Director of Pharmaceutical Research at Elan Corporation where he managed the development activities for four commercial products, which incorporate nanotechnology. Dr Bosch was a co-founder of NanoSystems LLC in 1995 and a co-inventor of NanoCrystal® Technology.

(d) **Robert Towner**
Non-Executive Director

Please refer to Section 9.2(a) above for Mr Towner's profile.

9.4 Directors' interests

Other than as disclosed in this Prospectus, no Existing Director or Proposed Director holds at the date of this Prospectus or held at any time during the last 2 years, any interest in:

(a) the formation or promotion of the Company;

(b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion, or the Offers; and

(c) the Offers.

Further, other than as disclosed in this Prospectus, the Company has not paid any amount or provided any benefit, or agreed to do so, to any Existing Director or Proposed Director, either to induce that Existing Director or Proposed Director to become, or to qualify them as a Director, or otherwise, for services rendered by them in connection with the formation or promotion of the Company or the Offers.

9.5 Directors' security holdings

Directors are not required to hold any Shares under the Current Constitution or the Proposed Constitution.

Set out in the table below are details of the anticipated relevant interests of the Existing Directors and Proposed Directors in the Shares of the Company upon completion of the Offers.

Director	Existing Shares[1]	% interest - existing	Shares at completion of Acquisition[2]	% interest at completion of Acquisition[3]	% interest at completion of Acquisition[4]
Robert Towner[5]	1,500,000	1.94%	1,500,000	0.39%	0.37%
Phillip Wingate	150,000	0.19%	650,000	0.17%	0.16%
John Hannaford[6]	3,000,000	3.88%	5,500,000	1.45%	1.36%
Matthew Callahan[7]	Nil	Nil	68,880,000	18.11%	16.99%
Graham Griffiths[8]	Nil	Nil	2,500,000	0.66%	0.62%
H. William Bosch	Nil	Nil	15,300,000	4.02%	3.77%

Notes:

1. The above figures are presented on a post-Consolidation basis.
2. The figures assume that the Offer is fully subscribed and that there are 380,400,000 Shares on issue at Completion of the Acquisition. The exact number of Shares on issue will be subject to the rounding effects of the Consolidation.

   The figures also assume Shareholders approve Mr Hannaford and Mr Wingate's participation in the Offer, which is to be put to Shareholders at the General Meeting. Should approval be granted, Mr Hannaford may subscribe for 2,500,000 Shares under the Offer and Mr Wingate may subscribe for 500,000 Shares under the Offer.
3. Assumes no Oversubscription Shares accepted.
4. Assumes full Oversubscription Shares accepted.
5. Mr Towner is a director and shareholder of Austin 4 Pty Ltd ATF <R&S Towner Super A/C>, Austin 4 Pty Ltd Family Trust <R&S Towner Family A/C> and Cornerstone Corporate Pty Ltd.
6. Mr Hannaford is a director and shareholder of Riverview Corporation Pty Ltd, and a director and shareholder of John & Emma Hannaford Superannuation Pty Ltd <The Hannaford Super Fund a/c>.
7. Mr Callahan is a director, shareholder and beneficiary of Shenasby Investments Pty Ltd as trustee for the Shenasby Trust.
8. Mr Griffiths has agreed to subscribe for 2,500,000 Shares under the Offer via G J Griffiths Private Superannuation Fund.

Set out in the table below are details of the anticipated relevant interests of the Existing Directors and Proposed Directors in Options upon Completion of the Offers.

Director	Options
Robert Towner[2]	2,055,000
Phillip Wingate	Nil
John Hannaford[3]	600,000
Matthew Callahan[4]	Nil
Graham Griffiths[5]	Nil
H. William Bosch[6]	Nil

Notes:

1. The above figures are presented on a post-Consolidation basis.
2. Mr Towner is a director and shareholder of Austin 4 Pty Ltd ATF <R&S Towner Super A/C>, Austin 4 Pty Ltd Family Trust <R&S Towner Family A/C> and Cornerstone Corporate Pty Ltd.
3. Mr Hannaford is a director and shareholder of Review Corporation Pty Ltd and a director and shareholder of John & Emma Hannaford Superannuation Pty Ltd <The Hannaford Super Fund a/c>.

9.6 Directors' remuneration

The Current Constitution and the Proposed Constitution each provide that each Director is entitled to such remuneration from the Company as the Directors decide, but the total amount provided to all non-executive Directors must not exceed in aggregate the amount fixed by the Company in a general meeting. The current maximum amount of remuneration that may be paid to all non-executive Directors has been set at $300,000 per annum.

The remuneration of the executive Directors will be determined by the Board. A summary of Mr Callahan and Dr Bosch's consultancy agreements are set out in Section 10.3(c)(i) and (ii).

9.7 Related party and other interested party transactions

(a) Relationship between Proposed Director, Mr Matthew Callahan and Botanix

One of the Company's Proposed Directors, Mr Matthew Callahan, is a director and a major shareholder of Botanix Pharmaceuticals. The Company proposes to acquire the shares in Botanix Pharmaceuticals indirectly held by Mr Callahan as part of the Acquisition. Following Completion of the Acquisition into Shares, Mr Callahan will hold 68,880,000 Shares comprising voting power of 18.09% of the Company (assuming no Oversubscription Shares are accepted). Mr Callahan (via a related entity) will be repaid loans made to Botanix Pharmaceuticals totalling a maximum of $250,000.

(b) Director participation in Offer

Two of the Company's Existing Directors, Messrs Hannaford and Wingate intend to participate in the Offer under this Prospectus.

Messrs Hannaford and Wingate are related parties of the Company by virtue of being Directors.

Listing Rule 10.11 provides that a company must not, subject to specified exceptions, issue or agree to issue equity securities to related parties without the approval of shareholders. Therefore approval is being sought under Listing Rule 10.11 for the issue of the Shares to Messrs Hannaford and Wingate at the General Meeting to be held on 14 June 2016.

The maximum number of Shares to be issued to Messrs Hannaford and Wingate (or their nominees) in the Offer under this Prospectus is 2,500,000 and 500,000 Shares, respectively.

(c) **Service Agreements**

The Company has Service Agreements with companies related to Messrs Hannaford and Towner. Under these agreements the related companies provide various services to the Company.

Refer to Section 10.3(e) for a summary of the Service Agreements.

(d) **Deeds of indemnity, insurance and access**

The Company is party to deeds of indemnity, insurance and access with each of the Existing Directors and is proposing to enter into similar deeds with each of the Proposed Directors upon their appointment as Director. Under these deeds, the Company indemnifies each Director to the extent permitted by the Corporations Act against any liability arising as a result of the Director acting as a Director of the Company. The Company is also required to maintain insurance policies for the benefit of the relevant Director and must also allow the Directors to inspect board papers in certain circumstances.

Refer to Section 10.3(f) for a summary of the deeds of indemnity, insurance and access.

9.8 Corporate Governance

The Board is responsible for establishing the Company's corporate governance framework, the key features of which are set out in this Section 9.8. In establishing its corporate governance framework, the Board has referred to the 3rd edition of the ASX Corporate Governance Councils' Corporate Governance Principles and Recommendations.

In accordance with Listing Rule 1.1 Condition 13, the corporate governance statement set out in this Section 9.8 discloses the extent to which the Company intends to follow the recommendations as at the date of reinstatement of the Company's Securities to quotation on ASX. The Company will follow each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices will follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "if not, why not" reporting regime, where, after due consideration, the Company's corporate governance practices will not follow a recommendation, the Board has explained its reasons for not following the recommendation and disclosed what, if any, alternative practices the Company will adopt instead of those in the recommendation.

The following governance-related documents can be found on the Company's website at www.bone-ltd.com, under the section marked "Corporate Governance":

(a) policy and procedure for selection and appointment of new directors;

(b) process for performance evaluation of the Board, board committees, individual directors and key executives;

(c) Shareholder Communications Policy;

(d) Audit Committee Charter;

(e) Nomination and Remuneration Committee Charter;

(f) Securities Trading Policy;

(g) Continuous Disclosure Policy;

(h) summary of procedure for selection of external auditor and rotation of external auditor;

(i) Risk Management Program;

(j) Board Charter; and

(k) Code of Conduct.

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1

The Board is ultimately accountable for the performance of the Company and provides leadership and sets the strategic objectives of the Company. It appoints all senior executives and assesses their performance on at least an annual basis. It is responsible for overseeing all corporate reporting systems, remuneration frameworks, governance issues, and stakeholder communications. Decisions reserved for the Board relate to those that have a fundamental impact on the Company, such as material acquisitions and takeovers, dividends and buybacks, material profits upgrades and downgrades, and significant closures.

The Company has developed a Board Charter which sets out the roles and responsibilities of the Board, a copy of which is available on the Company's website.

Recommendation 1.2

As Board members are appointed to represent the interests of Shareholders, appropriate checks are undertaken by management before nominating or appointing candidates to the Board. Shareholders are provided with all material information in the Company's possession relevant to a decision on whether or not to elect or re-elect a director.

Full details of the Company's policy and procedure for selection and appointment of new directors is available on the Company's website.

Recommendation 1.3

The Company maintains written agreements with each of its Directors and senior executives setting out their roles and responsibilities.

Recommendation 1.4

The Company Secretary is engaged by the Company to manage the proper function of the Board. The Company Secretary reports directly to the Chair and is accountable to the Board.

Recommendation 1.5

The Company has not adopted an express policy specifically addressing the achievement of gender diversity. Due to the current limited size of the Board, the Board does not consider it necessary to have a gender diversity policy, but will consider adopting a policy in the future. Furthermore, the Company has not set any objectives for achieving gender diversity. Should a gender diversity policy be considered appropriate for the Company in the future due to increases in size of the organisation, the policy will specifically deal with the objectives for achieving diversity.

The Company's corporate code of conduct provides a framework for undertaking ethical conduct in employment. Under the corporate code of conduct, the Company will not tolerate any form of discrimination or harassment in the workplace.

The Group currently has no female board members or senior executives.

Recommendation 1.6

The Board reviews its performance annually, as well as the performance of individual Committees and individual directors (including the performance of the Chairman as Chairman of the Board).

Full details of the process for performance evaluation of the Board, Board committees, individual Directors and key executives are available on the Company's website.

Recommendation 1.7

Until Completion of the Acquisition of Botanix Pharmaceuticals, the Company has had any senior executives and as such a policy for their performance evaluation has not been developed.

The Company intends to develop its senior executive performance evaluation procedures in order to facilitate an evaluation to be undertaken within the first 12 months of the Acquisition against the key objectives.

Principle 2: Structure the board to add value

Recommendation 2.1

In view of the size and resources available to the Company, it is not considered that a separate nomination committee would add any substance to this process, as such the Board as a whole will act in regards to the responsibilities of the nomination committee. Those responsibilities are outlined in the Nomination and Remuneration Committee Charter which is available on the Company's website.

Recommendation 2.2

The Board's skills matrix indicates the mix of skills, experience and expertise that are considered necessary at Board level for optimal performance of the Board. The matrix reflects the Board's objective to have an appropriate mix of industry and professional experience including skills such as leadership, governance, strategy, finance, risk, IT, HR, policy development, international business and customer relationship. External

consultants may be brought it with specialist knowledge to address areas where this is an attribute deficiency in the Board.

Recommendation 2.3

The Company discloses in its Annual Report those Directors it considers independent Directors and the considerations given in determining independence. The Annual Report also includes the length of service of each Director.

Recommendation 2.4

Given the Company's present size and scope, it is currently not Company's policy to have a majority of independent Directors. Directors have been selected to bring specific skills and industry experience to the Company. The Board has an expansive range of relevant industry experience, financial, legal and other skills and expertise to meet its objectives.

Recommendation 2.5

Following Completion of the Acquisition the Chairman, Mr Graham Griffiths, will be considered independent.

Recommendation 2.6

Upon appointment to the Board new Directors are provided with Company policies and procedures and are provided an opportunity to discuss the Company's operations with senior management and the Board.

The Company encourages its Directors to participate in professional development opportunities presented to the Company and provides appropriate industry information to its Board members on a regular basis.

Principle 3: Act ethically and responsibly

Recommendation 3.1

The Company has adopted a Code of Conduct for Company executives that promote the highest standards of ethics and integrity in carrying out their duties to the Company.

The Code of Conduct can be found on the Company's website.

Principle 4: Safeguard integrity in corporate reporting

Recommendation 4.1

In view of the size and resources available to the Company, it is not considered that a separate audit committee would add any substance to this process, as such the board as a whole acts in regards to the responsibilities of the Audit Committee. Those responsibilities are outlined in the Audit Committee Charter which is available on the Company's website.

Recommendation 4.2

Consistent with the requirements of the Corporations Act and best practice recommendations, the person or persons fulfilling the functions of chief executive officer and chief financial officer are required to make a statement to the Board that the Company's financial reports present a true and fair view in all material respects of

the Company's financial condition and operational results and are in accordance with relevant accounting standards.

Recommendation 4.3

The Board encourages the external auditor to attend the annual general meeting to address any shareholder questions that may arise.

Principle 5: Make timely and balanced disclosure

Recommendation 5.1

The Company has a specific policy and procedures regime in order to comply with its continuous disclosure obligations under the Listing Rules. A copy of the Continuous Disclosure Policy is available on the Company's website.

Principle 6: Respect the rights of security holders

Recommendation 6.1

The Company maintains a website which includes information about the operations of the Company and its governance policies and procedures.

Recommendation 6.2

The Company has a Shareholder Communication Policy to facilitate effective shareholder communication.

Recommendation 6.3

The Company provides appropriate notification of and allocates scheduled question time at meetings of Shareholders to facilitate participation at those meetings.

Recommendation 6.4

Investors may inspect the Company's governance and Shareholder Communications policies via the website which lay out the options to receive communications from, and send communications to, the entity and its security registry electronically.

Principle 7: Recognise and manage risk

Recommendation 7.1

The identification and management of risk, including calculated risk-taking activity is viewed by management as an essential component in creating shareholder value. Whilst there is currently no risk committee, the Board as a whole is employed to oversee the Company's risk management framework.

Management is responsible for developing, maintaining and improving the Company's risk management and internal control system. A register of material business risks has been established, risks have been analysed and evaluated, risk management processes and controls are in place and reporting schedules developed. Management provides the Board with periodic reports identifying areas of potential risks and the safeguards in place to efficiently manage material business risks.

The Risk Management Program of the Company is available on the Company's website.

Recommendation 7.2

Strategic and operational risks are reviewed at least annually as part of the forecasting and budgeting process. The Company has identified and actively monitors risks inherent in the industry in which the Company operates.

Recommendation 7.3

The Board has established a framework for the management of the Group including a system of internal controls, a business risk management process and the establishment of appropriate ethical standards. This forms part of the overall Risk Management Program employed by the Company and available on the Company's website.

Recommendation 7.4

As a public listed company operating in the pharmaceuticals and bio-technology industry, the Company has exposures to various risks which may include economic, environmental and social sustainability risks. The Risk Management Program employed by the Company is designed to identify and manage these risks accordingly.

Principle 8: Remunerate fairly and responsibly

Recommendation 8.1

In view of the size and resources available to the Company, it is not considered that a separate remuneration committee would add any substance to this process, as such the Board as a whole acts in regards to the responsibilities of the Remuneration Committee. Those responsibilities are outlined in the Nomination and Remuneration Committee Charter which is available on the Company's website.

The Nomination and Remuneration Committee may obtain independent advice on the appropriateness of remuneration packages.

Recommendation 8.2

The Company separately distinguishes the remuneration of executives and non-executive directors. Disclosure of the remuneration arrangements for Directors and senior executives are disclosed in the Annual Reports of the Company.

Recommendation 8.3

The Company maintains a Securities Trading Policies which restricts the permission for employees and directors to enter transactions which limit the economic risks associated with the participation in the Company's equity based incentive scheme. A copy of the Share Trading Policy is available on the Company's website.

10. Material Contracts

10.1 Introduction

The Existing Directors and Proposed Directors consider that certain contracts entered into by the Company and Botanix Pharmaceuticals are material to the Merged Group or are of such a nature that an investor may wish to have particulars of them when making an assessment of whether to apply for Shares under the Offer. The provisions of such material contracts are summarised in this Section. As this Section is a summary only, the provisions of each contract are not fully described. To understand fully all rights and obligations pertaining to the material contracts, it would be necessary to read them in full.

10.2 Botanix Pharmaceuticals Agreements

(a) **Permetrex™ Licence Agreement**

Botanix Pharmaceuticals has entered into a licence and collaboration agreement with Dr Eugene R. Cooper (**Dr Cooper**), effective 1 May 2015.

Under the agreement, Dr Cooper has granted to Botanix Pharmaceuticals a world-wide exclusive licence to use the "Cooper Background Technology" to develop, make and have made, use, have used, offer for sale, sell, have sold, import, export and otherwise to exploit and commercialise any finished product in the prevention, treatment and/or control of any disease, disorder or condition in humans utilising any active derived from the Cannabis Sativa plant including (without limitation) any synthetic or semi-synthetic cannabinoid.

The "Cooper Background Technology" is technology known by Dr Cooper for efficiently delivering pharmaceuticals, cosmetics and natural extracts onto and through the skin using formulations with maximum driving force and super saturation and using agents known to increase penetration by altering the skin barrier. The Company understands that this "Cooper Background Technology" includes Permetrex™ (the drug delivery technology described in Section 3.8(c)).

Botanix Pharmaceuticals must pay Dr Cooper the following milestone payments in respect of products developed using the licence:

(i) upon commencement of the first human trial of a licensed product: US$50,000;

(ii) upon acceptance of filing for regulatory approval for the manufacture, distribution, use and sale of the first licensed product: US$50,000; and

(iii) upon the receipt of regulatory approval for the manufacture, distribution, use and sale of the first licensed product: US$100,000.

In addition, Botanix Pharmaceuticals is required pay Dr Cooper a royalty of 5 percent (5%) of the net sales of each licensed product during the term of the agreement.

The agreement commenced on 1 May 2015 and shall continue until no further payments are due to Dr Cooper under the agreement unless sooner terminated in accordance with the terms of the agreement or by mutual written consent.

The agreement may be terminated by either party for material breach by the other party.

Botanix Pharmaceuticals has not yet made any payments to Dr Cooper under the agreement.

Dr Cooper will retain ownership of all Cooper Background Technology.

Botanix Pharmaceuticals will solely own all:

(i) patent rights claiming inventions made by or on behalf of Dr Cooper or Botanix Pharmaceuticals or its licensees in the course of performing activities under the agreement; and

(ii) patents and patent applications claiming inventions made or reduced to practice in the performance of the collaboration between Botanix Pharmaceuticals and Dr Cooper to develop the compounds of Botanix Pharmaceuticals and related licensed products under the agreement; and

Dr Cooper must assign to Botanix Pharmaceuticals all right, title and interest in and to the above.

The agreement is governed by Delaware law.

(b) **Sharp Clinical Agreement**

Botanix Pharmaceuticals has entered into a services agreement with Sharp Clinical Services, Inc (**Sharp**) dated 3 October 2015.

Pursuant to this agreement, Botanix Pharmaceuticals proposes to develop BTX1503.

Under the agreement, Sharp has agreed to provide clinical development services to Botanix Pharmaceuticals by reference to a quote specifying certain research and analytical services to a value of approximately US$65,620. The agreement may be terminated for material breach.

The key services to be provided by Sharp under the agreement include:

(i) research/analytical services including laboratory rental, ancillary supplies, a support technician, cleaning of used equipment and laboratory space, storage, control and recordkeeping of cannabidiol (for approximately 10 business days – additional costs will be incurred if additional time is required);

(ii) procurement of certain materials;

(iii) logistics and project management services;

(iv) receipt of controlled substance materials;

(v) provision of storage space;

(vi) distribution and freight services; and

(vii) destruction services.

Any intellectual property developed by Botanix Pharmaceuticals or Sharp under the agreement shall be owned by Botanix Pharmaceuticals unless it relates exclusively to Sharp's existing intellectual property or to developing, formulating, manufacturing, filling, processing, packaging, analysing, or testing pharmaceutical products generally, in which case it shall be owned by Sharp.

The agreement is governed by Delaware law.

(c) **Thiboutot Consulting Agreement**

Botanix Pharmaceuticals has entered into a consulting agreement with RT Consultants, Inc (**RT**), pursuant to which Professor Diane Thiboutot from Penn State University has agreed to provide services to Botanix Pharmaceuticals as an independent contractor.

The agreement commenced on 12 November 2015 and is to continue until 12 November 2017, unless terminated earlier. The agreement may be extended by written agreement. Either party may terminate the agreement for material breach.

The key consultancy services to be provided by RT are as follows:

(i) provide verbal and written strategic advice as requested by Botanix Pharmaceuticals in relation to the scientific and clinical plans to develop cannabidiol for skin disease;

(ii) contribute to any scientific advisory board discussions as required;

(iii) undertake specific consulting tasks in relation to pre-clinical testing and clinical design, as agreed on a case by case basis; and

(iv) provide advice in relation to vendor selection and advisor selection as required.

The fee payable by Botanix Pharmaceuticals to RT is US$550 per hour for consultation. Botanix Pharmaceuticals is also required to reimburse RT for out-of-pocket expenses incurred by RT in providing the consultancy services.

All intellectual property developed by RT in connection with the performance of the consultancy services are owned by Botanix Pharmaceuticals and RT must execute and deliver any such documents and do such other acts as necessary or desirable to document the assignment and transfer of such intellectual property rights to Botanix Pharmaceuticals.

RT is subject to obligations of confidentiality and non-solicitation of employees considered customary for agreements of this nature.

(d) **Leyden Consulting Agreement**

Botanix Pharmaceuticals has entered into a consulting agreement with Professor Jim Leyden (**Leyden**) pursuant to which Leyden has agreed to provide services to Botanix Pharmaceuticals as an independent contractor.

The agreement commenced on 12 October 2015 and is to continue until 12 November 2017, unless terminated earlier. The agreement may be extended by written agreement. Either party may terminate the agreement for material breach.

The key consultancy services to be provided by Leyden are as follows:

(i) provide verbal and written strategic advice as requested by Botanix Pharmaceuticals in relation to the scientific and clinical plans to develop cannabidiol for skin disease;

(ii) contribute to any scientific advisory board discussions as required; and

(iii) provide advice in relation to vendor selection and advisor selection as required.

The fee payable by Botanix Pharmaceuticals to Leyden is US$500 per hour for consultation. Botanix Pharmaceuticals is also required to reimburse Leyden for out-of-pocket expenses incurred by Leyden in providing the consultancy services.

All intellectual property developed by Leyden in connection with the performance of the consultancy services are owned by Botanix Pharmaceuticals, and Leyden must execute and deliver any such documents and do such other acts as necessary or desirable to document the assignment and transfer of such intellectual property rights to Botanix Pharmaceuticals.

Leyden is subject to obligations of confidentiality and non-solicitation of employees considered customary for agreements of this nature.

(e) **Acceptable use of technology resources policy**

Botanix Pharmaceuticals has developed a policy outlining the acceptable use of its computing resources such as laptops, workstations, smartphones, tablets, networks and emails.

It is noted that inappropriate use of equipment and resources exposes Botanix Pharmaceuticals to risks including potential malware attacks, compromised network systems and services, and potential loss of confidential or proprietary information.

The policy applies to employees, contractors, consultants, temporary workers and other persons performing works on behalf of Botanix Pharmaceuticals, including agents or personnel employed by third parties who are authorised or permitted to use Botanix Pharmaceuticals' technology resources. The policy applies to all equipment that is owned, leased licensed or rented by Botanix Pharmaceuticals.

The policy provides, amongst other things, that:

(i) Botanix Pharmaceuticals' systems are only to be used as necessary to perform the person's job responsibilities, noting that use for any personal matter is to be minimised and only in a proper, ethical, responsible and reasonable manner;

(ii) confidential information must not be disclosed unless there is a valid business purpose to do so and prior approval is obtained from the appropriate manager;

(iii) authorised network maintenance individuals may monitor and audit equipment and traffic;

(iv) certain expectations are applicable for the treatment of confidential, proprietary or sensitive information such as no public discussions, the use of passwords and locked files and cabinets and the security of laptops;

(v) the obligations regarding confidentiality continue even after a person to whom the policy applies has terminated his or her relationship with Botanix Pharmaceuticals;

(vi) the use of software applications and operating systems on all devices is regulated; and

(vii) email, social media and internet usage restrictions apply.

(f) **Protection of trade secrets and confidential information policy**

Botanix Pharmaceuticals has developed a global corporate policy for the protection of trade secrets and confidential information. The policy has an effective date of 23 January 2016.

The policy applies to all directors, officers, contingent workers and employees of Botanix Pharmaceuticals.

The policy provides, amongst other things, that:

(i) all confidential information shall be the sole and exclusive property of Botanix Pharmaceuticals and its assigns;

(ii) as a condition of employment, Botanix Pharmaceuticals' employees agree to protect all confidential information and take all necessary precautions to prevent inadvertent or accidental disclosure;

(iii) the obligations in the policy continue even after a person to whom it applies has terminated his or her relationship with Botanix Pharmaceuticals;

(iv) a specified naming and document protocol applies to documents which include trade secrets of Botanix Pharmaceuticals;

(v) only employees or other authorise users with a legitimate need to know should have access to confidential information or trade secrets;

(vi) all potential vendors, suppliers, consultants and other third parties providing services on behalf of Botanix Pharmaceuticals must have entered into a confidentiality and non-disclosure agreement before any confidential information is disclosed to the third party;

(vii) only Botanix Pharmaceuticals' officers and employees with a title of "vice president" or higher may execute confidentiality and non-disclosure agreements; and

(viii) all inventions of a person to whom the policy applies which are developed while the person employed or engaged by Botanix Pharmaceuticals shall belong to Botanix Pharmaceuticals along with all related intellectual property rights.

(g) **Standard operating procedure for protection of trade secrets**

Botanix Pharmaceuticals has developed a standard operating procedure (**SOP**) applicable to all persons who have access to Botanix Pharmaceuticals' trade secrets (**Covered Persons**).

The SOP provides, amongst other things, that:

(i) Covered Persons must receive training on the SOP and the protection of trade secrets and confidential information policy (described in Section 10.2(f));

(ii) Covered Persons must annually complete an acknowledgement and certification that they have reviewed and complied with the SOP and the protection of trade secrets and confidential information policy (described in Section 10.2(f));

(iii) Botanix Pharmaceuticals' Executive Chairman must be made aware of all documents or information believed to constitute trade secrets of Botanix Pharmaceuticals to ensure that all such trade secrets are subject to appropriate physical and technological limitations on access;

(iv) hiring managers must have regard to certain matters and obligations in respect to the provision of confidential information and trade secrets;

(v) a register of confidentiality agreements and similar agreements must be maintained;

(vi) each Covered Person must sign a confidentiality agreement; and

(vii) Botanix Pharmaceuticals may summarily terminate a Covered Person who knowingly or recklessly shares trade secrets with unauthorised persons or entities.

(h) **Botanix Vendor Loan Agreements**

Botanix Pharmaceuticals has entered into separate agreements with two of the Botanix Vendors, Shenasaby Pty Ltd (ACN 112 145 070) as trustee for the Shenasaby Trust (**Shenasaby**) and Caperi Pty Ltd (ACN 607 381 224) as trustee for the Caperi Trust (**Caperi**) for the provision of a loan facility to Botanix Pharmaceuticals, to be used for working capital.

The agreements, which were both entered into on 15 December 2015, provide for a loan of up to $250,000 each (i.e. $500,000 in aggregate) to be provided to Botanix Pharmaceuticals, on an interest free and unsecured basis.

The loans are repayable on the earlier to occur of 12 months from the date of drawdown, or completion of a capital raising by Botanix Pharmaceuticals (or its parent company) of at least $2,000,000 (after costs).

As at the date of this Prospectus, $250,000 has been drawn-down under the loan agreements.

The Company, the lenders and Botanix Pharmaceuticals have agreed in the Acquisition Agreement that at Completion, the Company will repay these

loans to a maximum of $250,000. This repayment will be in full and final satisfaction of the loans.

(i) **Indemnification agreement**

Botanix Pharmaceuticals has entered into an indemnification agreement with Mr Matthew Callahan (**Callahan**), dated 13 August 2015.

Pursuant to this agreement, Botanix Pharmaceuticals indemnifies Callahan to the fullest extent permitted by the applicable law against any liability arising as a result of Callahan's engagement with Botanix Pharmaceuticals.

10.3 Company Agreements

(a) **Acquisition Agreement**

On 21 March 2016, the Company announced to ASX that it had entered into a conditional binding term sheet with Botanix Pharmaceuticals and the Botanix Vendors to acquire all the issued capital of Botanix Pharmaceuticals.

On 15 April 2016, the Company, Botanix Pharmaceuticals and the Botanix Vendors entered into a definitive, full form share sale agreement which replaced the initial term sheet (**Acquisition Agreement**). The Acquisition Agreement is on terms materially the same as the term sheet.

(i) Conditions of the Acquisition Agreement

Completion of the sale and purchase of 100% of the issued capital in Botanix Pharmaceuticals pursuant to the Acquisition Agreement is due to occur 2 Business Days following the satisfaction or waiver of the latest condition to be satisfied or waived. The conditions to be satisfied or waived include:

(A) (**approvals**) the Company obtaining all regulatory and Shareholder approvals;

(B) (**restriction agreements**) to the extent required by ASX or the Listing Rules, each person entering into a restriction agreement imposing such restrictions as mandated by the Listing Rules in respect of the Consideration Shares and any other securities to be issued; and

(C) (**capital raising**) the Company completing a capital raising of $3,000,000, as contemplated by the Offer in this Prospectus.

The Company, Botanix Pharmaceuticals and the Botanix Vendors must use their best efforts ensure the above conditions precedent are satisfied. If any of the conditions precedent are not satisfied on or before 5.00pm (WST) on 18 August 2016 (or such later date as the parties may agree in writing), the Company, Botanix Pharmaceuticals or the Botanix Vendors may terminate the Acquisition Agreement by the provision of written notice to the other parties.

(ii) Consideration

In exchange for the Company acquiring Botanix Pharmaceuticals, the Company will issue 153,060,000 Shares to the Botanix Vendors (on a post-Consolidation basis).

(iii) Completion

At Completion of the Acquisition, the Company has agreed to issue the Consideration Shares to the Botanix Vendors.

In addition, following the appointment of the Proposed Directors to the Board, it is proposed that Mr John Hannaford and Mr Phillip Wingate will resign as Directors. It is intended that Mr Robert Towner will remain as a Director and Mr Wingate will continue as Company Secretary.

(iv) Loan funds

The Company has agreed to repay the Botanix Vendor Loan Agreements (as described in Section 10.2(h)), at Completion, up to a maximum of $250,000.

(v) Warranties and indemnities

The Acquisition Agreement contains additional provisions, including warranties and indemnities in respect of the status of Botanix Pharmaceuticals and the Company, which are considered standard for agreements of this kind.

(b) **Director Appointment Agreements**

(i) Mr Graham Griffiths

(A) **(Role)** Mr Griffiths will be engaged as a Non-Executive Director and Chairman of the Company pursuant to a non-executive director agreement between the Company and Mr Griffiths (**Griffiths Agreement**). Mr Griffiths' duties will include attending:

(1) regular Board meetings;

(2) every annual general meeting of the Company; and

(3) site visits (if applicable).

(B) **(Commencement Date)** The commencement date of the Griffiths Agreement will be on the Completion Date.

(C) **(Compensation)** The total annual remuneration payable to Mr Griffiths is a salary of $50,000 per annum.

(D) **(Termination)** The Griffiths Agreement may be terminated by the Company in the event that Mr Griffiths:

(1) ceases to be a director under Corporations Act;

(2) becomes bankrupt;

(3) becomes prohibited from being a director under the Corporations Act;

(4) becomes of unsound mind;

(5) resigns by notice in writing to the Company;

(6) is removed from office by resolution of the Company;

(7) is not re-elected to office; or

(8) is subject to any other circumstances set out under the Constitution or Corporations Act.

(E) **(Non-compete)** Mr Griffiths will not, except with the prior written consent of the Company, be connected with or interested in any business in competition with that of the Company or its subsidiaries. However, Mr Griffiths is not prevented from holding equity in other companies.

(F) **(Confidential Information)** Mr Griffiths is subject to standard obligations in relation to the protection of confidential information of the Company.

(G) **(Applicable Law)** The Griffiths Agreement is governed by the laws of Western Australia.

(ii) Mr Matthew Callahan

(A) **(Role)** Mr Callahan will be engaged as an Executive Director of the Company pursuant to an executive director agreement between the Company and Mr Callahan (**Callahan Agreement**). Mr Callahan's duties will include:

(1) attending regular Board meetings;

(2) sitting on one or more of the Board committees; and

(3) attending committee meetings (as required).

(B) **(Commencement Date)** The commencement date of the Callahan Agreement will be on the Completion Date.

(C) **(Compensation)** Mr Callahan will not be paid a separate director's fee as the remuneration paid to Mr Callahan under the Callahan Consultancy Agreement takes into account his duties and responsibilities as a Director.

(D) **(Termination)** Mr Callahan is to immediately resign from all offices and positions of employment by the Company should he cease to be a Director. Mr Callahan's position as a Director will automatically cease upon termination of the Callahan Consultancy Agreement (refer to Section 10.3(c)(i)(F)).

(E) **(Confidential Information)** Mr Callahan is subject to standard obligations in relation to the protection of confidential information of the Company.

(F) **(Consultancy Agreement)** This Callahan Agreement prevails in the case of, and to the extent of, any inconsistencies between the Callahan Agreement and the Callahan Consultancy Agreement.

(G) **(Applicable Law)** The Callahan Agreement is governed by the laws of Western Australia.

(iii) **Dr H. William Bosch**

(A) **(Role)** Dr Bosch will be engaged as an Executive Director of the Company pursuant to an executive service agreement between the Company and Dr Bosch (**Bosch Agreement**). Dr Bosch's duties will include:

(1) attending regular Board meetings;

(2) sitting on one or more of the Board committees; and

(3) attending committee meetings (as required).

(B) **(Commencement Date)** The commencement date of the Bosch Agreement will be on the Completion Date.

(C) **(Compensation)** Dr Bosch will not be paid a separate director's fee as the remuneration paid to Dr Bosch under the Bosch Consultancy Agreement takes into account his duties and responsibilities as a Director.

(D) **(Termination)** Dr Bosch is to immediately resign from all offices and positions of employment by the Company should he cease to be a Director. Dr Bosch's position as a Director will automatically cease upon termination of the Bosch Consultancy Agreement (refer to Section 10.3(c)(ii)(F)).

(E) **(Confidential Information)** Dr Bosch is subject to standard obligations in relation to the protection of confidential information of the Company.

(F) **(Applicable Law)** The Bosch Agreement is governed by the laws of Western Australia.

(c) **Consultancy Agreements**

(i) **Bocca Consulting and Mr Matthew Callahan**

(A) **(Role)** Bocca Consulting Pty Ltd (ABN 40 132 019 393) (**Bocca Consulting**) will be engaged as a consultant of the Company pursuant to a consultancy agreement between the Company, Bocca Consulting and Mr Callahan (**Callahan Consultancy Agreement**). Bocca Consulting, through its key employee Mr Matthew Callahan, will provide the following consultancy services:

(1) advise the Board on matters relating to the business of the Company;

(2) ensure that Mr Callahan serves the Company in the capacity as an Executive Director responsible for:

- the management of the Company's overall development plans for the Company's products;

- the management of the Company's affairs;
- the management, appraisal and recruitment of staff including enforcement of the policies of the Company and dealing with personnel issues;
- reporting on all relevant aspects of the financial status and progress of the Company, its operations, and its staff;
- securing the intellectual property of the Company; and
- creating and pursuing the Company's business development and marketing strategy;

(3) promoting the Company and raising capital as required for the benefit of the Company;

(4) identifying and evaluating new opportunities and coordinating the development of any such opportunities purchased by the Company;

(5) exercising other powers and performing other duties as may be delegated by the chairperson; and

(6) performing other duties as are normally entrusted to a director of a public listed company.

(B) **(Commencement Date)** The commencement date of the Callahan Consultancy Agreement will be on the Completion Date.

(C) (**Term**) The term of the Callahan Consultancy Agreement will be three years, unless terminated earlier in accordance with the agreement.

(D) **(Compensation)**

(1) The total consultancy fee payable to Bocca Consulting in respect of 30 hours of consultancy services per month (**Minimum Time Commitment**) is a salary of US$100,000 per annum (GST exclusive).

(2) Commencing in 2017, the consultancy fee payable to Bocca Consulting shall be reviewed 4 weeks before every annual general meeting of the Company.

(3) The consideration payable to Bocca Consulting for any consultancy services performed in excess of the Minimum Time Commitment is an additional consultancy fee of US$150 per hour (GST exclusive).

(E) **(Location)** Mr Callahan will be based in Philadelphia, United States.

(F) **(Termination by the Company)** During the Term, the Callahan Consultancy Agreement may only be terminated by the Company:

(1) giving 6 months' notice in writing without any reason;

(2) giving written notice in the event of:

- Mr Callahan being guilty of gross misconduct;
- Mr Callahan becoming incapacitated by illness or accident for an accumulated period of 2 months in any 6 month period;
- Mr Callahan being removed or being disqualified from acting as a Director or resigning or failing to be re-elected as a Director;
- Bocca Consulting or Mr Callahan failing to provide consultancy services during the Term;
- Mr Callahan dying or becoming permanently incapacitated; or
- Bocca Consulting or Mr Callahan failing to comply with certain obligations and covenants under the Callahan Consultancy Agreement.

(G) **(Termination by Bocca Consulting)** During the Term, the Callahan Consultancy Agreement may only be terminated by Bocca Consulting:

(1) giving 6 months' notice in writing without any reason; or

(2) giving the Company written notice of any breach or non-performance of any provision in the Callahan Consultancy Agreement, and the failure by the Company to remedy or adequately respond to that breach, to the reasonable satisfaction of Bocca Consulting within 15 Business Days of the written notice.

(H) **(Non-compete during Term)** During the Term, Bocca Consulting and Mr Callahan must not, without the prior written consent of the Company, engage in any business, undertaking or activity which:

(1) competes with the business of the Company, engage or prepare to engage in any business or activity that is the same or similar to that part or parts of the business carried on by the Company (whether on its own or in conjunction with a related body corporate); and

(2) creates or may create a conflict between the interests of the Company and the interests of the Bocca Consulting.

(I) **(Non-compete after Term)** Non-competition restrictions also apply to Bocca Consulting and Mr Callahan on a cascading basis for a maximum of 12 months after the termination of the Callahan Consultancy Agreement, and throughout the world. These non-competition restrictions apply to engaging in competing businesses, soliciting employees and consultants, and accepting business from clients of the Company.

(J) **(Intellectual Property)** Bocca Consulting and Mr Callahan agree:

(1) that all intellectual property created by Bocca Consulting or Mr Callahan, including any future intellectual property, will be assigned to and vest in the Company; and

(2) any discovery, invention, secret process or improvement in procedure or operation discovery by on or behalf of Bocca Consulting or Mr Callahan which relates directly to the Company's business will be immediately disclosed to the Company, treated as confidential information, and the absolute property of the Company; and

(3) any intellectual property rights developed through providing the consultancy services shall vest in the Company, and Bocca Consulting and Mr Callahan must do all things reasonably necessary to assign such intellectual property rights to the Company.

(K) **(Confidential Information)** Bocca Consulting and Mr Callahan are subject to standard obligations in relation to the protection of confidential information of the Company.

(L) **(Applicable Law)** The Callahan Consultancy Agreement is governed by the laws of Western Australia.

(ii) Dr H. William Bosch

(A) **(Role)** Dr Bosch will be engaged as a consultant of the Company pursuant to a consultancy agreement between the Company and Dr Bosch (**Bosch Consultancy Agreement**). Dr Bosch will provide the following consultancy services:

(1) advise the Board on matters relating to the business of the Company;

(2) serving the Company in the capacity as Chief Scientific Adviser and Executive Director responsible for:

- overseeing work programs for the development of the Company's products;

- overseeing the planning and execution of related research and development projects and implementation of research and experimental strategies;
- overseeing the development and implementation of optimal regulatory strategies required for market approval of the Company's products and including direct liaison with regulatory bodies when required;
- identifying and protection of new intellectual property;
- conducting analysis and interpretation of experimental results;
- coordinating and interfacing with employees, consultants and technical advisors as well as with the members of the scientific advisory board; and
- identifying opportunities for new technology development and acquisition and new products or commercial opportunities; and

(3) performing other duties as are normally entrusted to a director of a public listed company.

(B) **(Commencement Date)** The commencement date of the Bosch Consultancy Agreement will be on the Completion Date.

(C) **(Term)** The term of the Bosch Consultancy Agreement is three years, unless otherwise terminated in accordance with the Bosch Consultancy Agreement.

(D) **(Compensation)**

(1) The total consultancy fee payable to Dr Bosch in respect of 30 hours of consultancy services per month (**Minimum Time Commitment**) is a salary of US$100,000 per annum (GST exclusive).

(2) Commencing in 2017, the consultancy fee payable to Dr Bosch shall be reviewed 4 weeks before every annual general meeting of the Company.

(3) The consideration payable to Dr Bosch for any consultancy services performed in excess of the Minimum Time Commitment is an additional consultancy fee of US$150 per hour (GST exclusive).

(E) **(Location)** Dr Bosch will be based in Philadelphia, United States.

(F) **(Termination by the Company)** The Bosch Consultancy Agreement may only be terminated by the Company:

(1) giving 6 months' notice in writing without any reason;

(2) giving written notice in the event of Dr Bosch:

- being guilty of gross misconduct;
- becoming incapacitated by illness or accident for an accumulated period of 2 months in any 6 month period;
- being removed or being disqualified from acting as a Director or resigning or failing to be re-elected as a Director;
- failing to provide consultancy services during the Term;
- dying or becoming permanently incapacitated; or
- failing to comply with certain obligations and covenants under the Bosch Consultancy Agreement.

(G) **(Termination by Dr Bosch)** The Bosch Consultancy Agreement may only be terminated by Dr Bosch:

(1) giving 6 months' notice in writing without any reason; or

(2) giving the Company written notice of any breach or non-performance of any provision in the Bosch Consultancy Agreement, and the failure by the Company to remedy or adequately respond to that breach, to the reasonable satisfaction of Dr Bosch within 15 Business Days of the written notice.

(H) **(Non-compete during Term)** During the Term Dr Bosch must not, without the prior written consent of the Company, engage in any business, undertaking or activity which:

(1) competes with the business of the Company, engage or prepare to engage in any business or activity that is the same or similar to that part or parts of the business carried on by the Company (whether on its own or in conjunction with a related body corporate); and

(2) creates or may create a conflict between the interests of the Company and the interests of the Dr Bosch.

(I) **(Non-compete after Term)** Non-competition restrictions also apply to Dr Bosch on a cascading basis for a maximum of 12 months after the termination of the Bosch Consultancy Agreement, and throughout the world. These non-competition restrictions apply to engaging in competing

businesses, soliciting employees and consultants, and accepting business from clients of the Company.

(J) **(Intellectual Property)** Dr Bosch agrees:

(1) that all intellectual property created by Dr Bosch, including any future intellectual property, will be assigned to and vest in the Company;

(2) any discovery, invention, secret process or improvement in procedure or operation discovery by or on behalf of Dr Bosch which relates directly to the Company's business will be immediately disclosed to the Company, treated as confidential information, and the absolute property of the Company;

(3) any intellectual property rights developed through providing the consultancy services shall vest in the Company and Dr Bosch must do all things reasonably necessary to assign such intellectual property rights to the Company.

(K) **(Confidential Information)** Dr Bosch is subject to standard obligations in relation to the protection of confidential information of the Company.

(L) **(Applicable Law)** The Bosch Consultancy Agreement is governed by the laws of Western Australia.

(iii) **Dr Eugene Cooper**

(A) **(Role)** Dr Cooper has been engaged as a consultant of Botanix Pharmaceuticals pursuant to a consultancy agreement between Botanix Pharmaceuticals and Dr Cooper (**Cooper Consultancy Agreement**).

(B) (**Services**) Dr Cooper has been engaged to provide services to assist Botanix Pharmaceuticals in developing a range of skin products utilising the active cannabidiol.

(C) **(Term)** The term of the Cooper Consultancy Agreement commenced on 1 May 2015 and continues for two years, unless otherwise terminated in accordance with the Cooper Consultancy Agreement.

(D) **(Compensation)** The total consultancy fee payable to Dr Cooper is US$150 per hour.

(E) **(Termination by the Company)** Dr Cooper or Botanix Pharmaceuticals may terminate the Cooper Consultancy Agreement upon providing the other party with 30 days' prior written notice.

(F) **(Intellectual Property)** All intellectual property developed by Dr Cooper will be owned and managed in accordance with the Permetrex™ Licence Agreement.

(d) **Lead Manager Mandate**

The Company has appointed Argonaut Securities Pty Limited (AFSL: 274 099) to act as lead manager to the Offer. In consideration of its services, the Lead Manager will receive capital raising and management fees totalling 5% of the total amount raised under the Offer, and the right to subscribe for up to 13,000,000 Advisor Options at an issue price of $0.00001 per Advisor Option. In addition, the Lead Manager will be entitled to be reimbursed for reasonable out of pocket expenses incurred in connection with the engagement.

The mandate contains covenants, warranties, representations and indemnities that are customary for an agreement of this nature.

(e) **Service Agreements**

(i) Ventnor Capital Pty Ltd

The Company has entered into a services agreement with Ventnor Capital Pty Ltd in relation to the provision of company secretarial services, office accommodation and accounting services to the Company. Ventnor Capital Pty Ltd is a related party of the Company as Mr John Hannaford is a director of Ventnor Capital Pty Ltd.

Shareholder approval for the agreement was not sought on the basis that the Board considers the arrangement between the Company and Ventnor Capital Pty Ltd to be on arm's length terms. The Company pays fees to Ventnor Capital Pty Ltd under the services agreement in accordance with the following:

(A) $3,000 (excluding GST) per month for company secretarial services;

(B) $500 (excluding GST) per month for office accommodation;

(C) $3,000 (excluding GST) per month for bookkeeping services; and

(D) services outside the scope of Section 10.3(e)(i)(A) to (C) above on discounted hourly rates.

(ii) Austin 4 Pty Ltd

The Company has entered into a services agreement with Austin 4 Pty Ltd in relation to the provision of corporate administration services to the Company. Austin 4 Pty Ltd is a related party of the Company as Mr Robert Towner is a shareholder and director of Austin 4 Pty Ltd.

Shareholder approval for the agreement was not sought on the basis that the Board considers the arrangement between the Company and Austin 4 Pty Ltd to be on arm's length terms. If the Company requests the provision of corporate administration services by Austin 4 Pty Ltd, the Company is obliged to pay fees to Austin 4 Pty Ltd under the services agreement on the basis of $3,000 (excluding GST) per month for those corporate administration services.

(f) **Deeds of Access, Indemnity and Insurance**

The Company has entered into deeds of access, indemnity and insurance with each of the Existing Directors (**Indemnity Deeds**). Upon the appointment of the Proposed Directors to the Board, the Company intends to also enter into Indemnity Deeds with the Proposed Directors.

Pursuant to these Indemnity Deeds, the Company indemnifies each Director to the extent permitted by the Corporations Act against any liability arising as a result of the Director acting as an officer of the Company. The Company will be required under the Indemnity Deeds to maintain insurance policies for the benefit of the relevant Director for the term of the appointment and for a period of seven years after the relevant Director's retirement or resignation.

The Indemnity Deeds also provide for the Director's right of access to Company records.

(g) **Employee Share Plan**

Shareholders approved at the annual general meeting held on 28 November 2014 the adoption of an employee option incentive scheme. Please refer to the notice of meeting dated 27 October 2014 for the terms and conditions of the adopted employee option incentive scheme. At the General Meeting to be held on 14 June 2016, the Company will seek Shareholder approval for a new employee securities incentive plan. The terms and conditions of the proposed employee securities incentive plan are set out in Schedule 2 of the Company's notice of meeting dated 13 May 2016.

(h) **Takor Agreements**

On 8 May 2015, the Company entered into a binding term sheet (**Term Sheet**) to acquire 100% of the issued capital of Takor Group Pty Ltd (**Takor**).

On 24 July 2015, the Company entered into a loan agreement and a convertible note agreement (together, **Funding Agreements**) with Takor as contemplated in the Term Sheet. Pursuant to the Funding Agreements, the Company advanced a loan of $100,000 to Takor, and invested $300,000 in a convertible note in Takor.

The Funding Agreements each provided that the amounts paid by the Company to Takor pursuant to those agreements (being $400,000 in aggregate) would be repayable within 90 days of the termination of the Term Sheet.

By an agreement dated 17 November 2015, the Company and Takor agreed to terminate the Term Sheet and amend the repayment obligations under the Funding Agreements. By agreement dated 4 May 2016, the Company and Takor agreed to further amend the repayment obligations. Pursuant to these amendments, the $400,000 is repayable by Takor to the Company as follows:

(i) by the issue of $400,000 worth of ordinary fully paid shares in Takor (**Takor Shares**) calculated at a deemed issue price of 80% of the issue price of Takor Shares issued under an initial public offering of Takor (such Takor Shares to be issued upon receipt by Takor of conditional approval to be admitted to the official list of ASX and those conditions being to the reasonable satisfaction of Takor and the Company); or

(ii) by a cash payment if the issue of Takor Shares contemplated in the preceding paragraph has not completed by 30 June 2017.

Takor is at liberty to repay the $400,000 before it is due to be repaid under the terms outlined above.

11. Additional Information

11.1 Rights and liabilities attaching to Shares

The following is a general description of the more significant rights and liabilities attaching to the Shares. This summary is not exhaustive. Full details of provisions relating to rights attaching to the Shares are contained in the Corporations Act, Listing Rules and the Current Constitution and the Proposed Constitution, copies of which are available for inspection at the Company's registered office during normal business hours.

The following summary is based on the Company's Current Constitution. The Company is seeking Shareholder approval for a Proposed Constitution at the upcoming General Meeting. The following summary is also consistent with the Proposed Constitution.

(a) **Ranking of Shares**

At the date of this Prospectus, all Shares are of the same class and rank equally in all respects. Specifically, the Shares issued pursuant to this Prospectus will rank equally with existing Shares.

(b) **Voting rights**

Every holder of Shares present in person or by proxy, attorney or representative at a meeting of Shareholders has one vote on a vote taken by a show of hands, and, on a poll every holder of Shares who is present in person or by proxy, attorney or representative has one vote for every fully paid Share held by him or her, and a fraction of a vote for every partly paid Share, registered in such Shareholder's name on the Company's share register.

A poll may be demanded by the chairperson of the meeting, by at least five Shareholders present in person or by proxy, attorney or representative, or by any one or more Shareholders who are together entitled to not less than 5% of the total voting rights of, or paid up value of, the shares of all those Shareholders having the right to vote.

(c) **Dividend rights**

Dividends are payable out of the Company's profits and are declared by the Directors.

(d) **Variation of rights**

At present, the Company has on issue one class of Shares only, namely ordinary Shares. Unless otherwise provided by the constitution or by the terms of issue of a class of Shares, the rights attached to the Shares in any class may be varied or cancelled only with the written consent of the holders of at least three-quarters of the issued Shares of the affected class, or by special resolution passed at a separate meeting of the holders of the issued Shares of the affected class.

(e) **Transfer of Shares**

Subject to the law, the constitution, the Listing Rules and the ASX Settlement Operating Rules, ordinary Shares are freely transferable.

(f) **General meetings**

Each member is entitled to receive notice of, and to attend and vote at, general meetings of the Company and to receive all notices, accounts and other documents required to be sent to members under the constitution, the Corporations Act or the Listing Rules.

(g) **Unmarketable parcels**

The Company's constitution provides for the sale of unmarketable parcels subject to any applicable laws and provided a notice is given to the minority Shareholders stating that the Company intends to sell their relevant Shares unless an exemption notice is received by a specified date.

(h) **Rights on winding up**

If the Company is wound up, the liquidator may, with the sanction of special resolution, divide the assets of the Company amongst members as the liquidator sees fit. The liquidator can with the sanction of a special resolution of the Company's Shareholders vest the whole or any part of the assets in trust for the benefit of Shareholders as the liquidator thinks fit, but no Shareholder of the Company can be compelled to accept any shares or other securities in respect of which there is any liability.

11.2 Terms of Advisor Options

(a) **Entitlement**

Each Advisor Option entitles the holder to subscribe for one fully paid ordinary share in the capital of the Company (**Share**) upon exercise of the Advisor Option.

(b) **Exercise Price and Expiry Date**

The Advisor Options have an exercise price of $0.03 per Advisor Option (**Exercise Price**) and an expiry date of 5:00pm (WST) on the date that is three years from the issue date (**Expiry Date**).

An Advisor Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(c) **Exercise Period**

The Advisor Options are exercisable at any time and from time to time on or prior to the Expiry Date.

(d) **Quotation of the Advisor Options**

The Options will be unquoted.

(e) **Transferability of the Advisor Options**

The Advisor Options are transferable.

(f) **Notice of Exercise**

The Advisor Options may be exercised by notice in writing to the Company in the manner specified on the Advisor Option certificate (**Notice of Exercise**)

and payment of the Exercise Price for each Advisor Option being exercised in Australian currency by electronic funds transfer or other means of payment acceptable to the Company.

Any Notice of Exercise of an Advisor Option received by the Company will be deemed to be a notice of the exercise of that Advisor Option as at the date of receipt.

(g) **Lodgement Instructions**

Cheques shall be in Australian currency made payable to the Company and crossed "Not Negotiable". The application for Shares on exercise of the Advisor Options with the appropriate remittance should be lodged at the Company's Registry.

(h) **Shares Issued on Exercise**

Shares issued on exercise of the Advisor Options rank equally with the then Shares of the Company.

(i) **Quotation of Shares on Exercise**

Application will be made by the Company to ASX, on the Business Day the Shares are issued, for quotation of the Shares issued upon the exercise of the Advisor Options.

(j) **Timing of Issue of Shares**

Within 15 Business Days after the receipt of a Notice of Exercise given in accordance with these terms and conditions and payment of the Exercise Price for each Advisor Option being exercised, the Company will issue the Shares pursuant to the exercise of the Advisor Options.

(k) **Participation in New Issues**

There are no participation rights or entitlements inherent in the Advisor Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Advisor Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 4 business days after the issue is announced. This will give the holders of Advisor Options the opportunity to exercise their Advisor Options prior to the date for determining entitlements to participate in any such issue.

(l) **Adjustment for Bonus Issues of Shares**

If the Company makes a bonus issue of Shares or other securities to existing Shareholders (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment):

(i) the number of Shares which must be issued on the exercise of an Advisor Option will be increased by the number of Shares which the Optionholder would have received if the Optionholder had exercised the Option before the record date for the bonus issue; and

(ii) no change will be made to the Exercise Price.

(m) **Adjustment for Entitlements Issue**

If the Company makes an issue of Shares pro rata to existing Shareholders (other than as a bonus issue, to which the above paragraph will apply) there will be no adjustment of the Exercise Price of an Advisor Option or the number of Shares over which the Advisor Options are exercisable.

(n) **Adjustments for Reorganisation**

If there is any reorganisation of the issued share capital of the Company, the rights of the Optionholders will be varied in accordance with the Listing Rules.

11.3 Substantial Shareholders

As at the date of this Prospectus, the following Shareholders (and their associates) hold 5% or more of the total number of Shares on issue (on a post-Consolidation basis):

Shareholder/Associates		Existing Shares[1]	%	% Shares Post-Acquisition[2]	% Shares Post-Acquisition[3]
1.	Proxima Concepts Ltd, Proxima Laboratory and Research Services Pty Ltd	5,240,892	6.78%	1.38%	1.29%
2.	Thornbury Pty Ltd	4,070,001	5.26%	1.07%	1.00%

1. The above figures are presented on a post-Consolidation basis.
2. Assumes no Oversubscription.
3. Assumes full Oversubscription.

On Completion of the Acquisition, the following Shareholders (and their associates) are expected to hold 5% or more of the total number of Shares on issue (on a post-Consolidation basis):

Shareholder/Associate		New Shares	% Shares Post-Acquisition[1]	% Shares Post-Acquisition[2]
1.	Shenasaby Pty Ltd <Shenasaby Trust>, Matthew Callahan	68,880,000	18.11%	16.99%
2.	Caperi Pty Ltd <Caperi Trust>, Gayle Cardaci	68,880,000	18.11%	16.99%

1. Assumes no Oversubscription.
2. Assumes full Oversubscription.

11.4 Interests of experts and advisers

(a) **No interest except as disclosed**

Other than as set out below or elsewhere in this Prospectus, no persons or entity named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution

of this Prospectus holds at the date of this Prospectus, or held at any time during the last 2 years, any interest in:

(i) the formation or promotion of the Company;

(ii) property acquired or proposed to be acquired by the Company in connection with its formation or promotion, or the Offers; or

(iii) the Offers,

and the Company has not paid any amount or provided any benefit, or agreed to do so, to any of those persons for services rendered by them in connection with the formation or promotion of the Company or the Offers.

(b) **Legal Advisors**

Bellanhouse Legal has acted as the solicitors to the Offers and the Australian solicitors to the Company in relation to the Offers, the Acquisition, the General Meeting and various other matters. The Company estimates it will pay Bellanhouse Legal $30,000 (excluding GST) for these services. Subsequently, fees will be charged in accordance with normal charge out rates. During the 24 months preceding lodgement of this Prospectus with ASIC, Bellanhouse Legal invoiced fees in the amount of $52,578 (excluding GST).

(c) **Lead Manager**

Argonaut has acted as lead manager to the Company. Fees are paid or payable to the Lead Manager in accordance with the Lead Manager Mandate summarised at Section 10.3(c)(iii). During the 24 months preceding lodgement of this Prospectus with ASIC, Argonaut has not received any fees from the Company.

(d) **Investigating Accountants**

BDO Corporate Finance (WA) Pty Ltd has acted as the Investigating Accountant and has prepared the Investigating Accountant's Report, which is included at Section 6. The Company estimates it has and will pay BDO Corporate Finance (WA) Pty Ltd a total of $5,000 (excluding GST) for these services. During the 24 months preceding lodgement of this Prospectus with ASIC, BDO Corporate Finance (WA) Pty Ltd has received fees from the Company in the amount of $25,500 (excluding GST).

(e) **Auditor**

BDO Audit (WA) Pty Ltd has been appointed as Auditor of the Company for which it will be paid usual commercial rates. During the 24 months preceding lodgement of this Prospectus with ASIC, BDO Audit (WA) Pty Ltd has received fees from the Company in the amount of $62,809 (excluding GST).

(f) **Intellectual Property Expert**

Wrays has prepared the Intellectual Property Expert's Report which is included at Section 8. Total fees payable to Wrays for work done in relation to this Prospectus are approximately $5,000 (excluding GST). During the 24 months preceding lodgement of this Prospectus, Wrays has not received any other fees from the Company.

11.5 Consents

Each of the parties referred to below:

(a) does not make the Offers;

(b) does not make, or purport to make, any statement that is included in this Prospectus, or a statement on which a statement made in this Prospectus is based, other than as specified below or elsewhere in this Prospectus;

(c) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than a reference to its name and a statement contained in this Prospectus with the consent of that party as specified below; and

(d) has given and has not, prior to the lodgement of this Prospectus with ASIC, withdrawn its consent to the inclusion of the statements in this Prospectus that are specified below in the form and context in which the statements appear.

Bellanhouse Legal has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to being named in this Prospectus as Australian legal adviser to the Company in the form and context in which it is named.

BDO Corporate Finance (WA) Pty Ltd has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to being named in this Prospectus as the Investigating Accountant to the Company in the form and context in which it is named and has given and not withdrawn its consent to the inclusion of the Investigating Accountant's Report in the form and context in which it is included.

BDO Audit (WA) Pty Ltd has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to being named in this Prospectus as auditor of the Company and Botanix Pharmaceuticals in the form and context in which it is named and references to its audit reports in the text of this Prospectus.

Argonaut has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as the lead manager to the Company in the form and context in which it is named, together with all references to it in this Prospectus. Argonaut has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of this Prospectus other than the references to it. Argonaut has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC.

Automic Registry Services has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to being named in this Prospectus as the Share Registry to the Company in the form and context in which it is named. Automic Registry Services has had no involvement in the preparation of any part of this Prospectus other than being named as Share Registry.

Wrays has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to being named in this Prospectus as the Intellectual Property Expert to the Company in the form and context in which it is named and has given and not withdrawn its consent to the inclusion of the Intellectual Property Expert's Report in the form and context in which it is included.

11.6 Expenses of the Offers

The expenses of the Offers (excluding GST) are estimated to be approximately $290,000 and are expected to be applied towards the items set out in the table below.

Items of expenditure	Amount
Capital raising fees	$90,000
Legal fees	$35,000
Accounting and Investigating Accountant's Report	$5,000
Intellectual Property Expert's Report	$5,000
Lead Manager Fee[1]	$60,000
ASIC fees	$2,320
ASX fees	$53,040
Due diligence expenses	$17,500
Other expenses	$22,094
Total estimated expenses	**$290,000**

Note:

1. Refer to Section 10.3(d) for further details in respect to the fees payable to the Lead Manager.

11.7 Continuous disclosure obligations

As the Company is admitted to the official list of ASX, the Company is a "disclosing entity" for the purposes of the Corporations Act. As such, it will be subject to regular reporting and disclosure obligations. Specifically, like all listed companies, the Company is required to continuously disclose to the market any information it has which a reasonable person would expect to have a material effect on the price or the value of the Company's Securities.

Price sensitive information is publicly released through ASX before it is disclosed to Shareholders and market participants. Distribution of other information to Shareholders and market participants is also managed through disclosure to ASX. In addition, the Company posts information on its website after the ASX confirms an announcement has been made, with the aim of making the information readily accessible to the widest audience.

11.8 Litigation

To the knowledge of the Directors, the Company is not involved in any litigation that is material for the purposes of this Prospectus. The Directors are not aware of any circumstances that might reasonably be expected to give rise to such litigation.

12. Directors' Authorisation

The Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with section 720 of the Corporations Act, each Existing Director and Proposed Director has consented to the lodgement of this Prospectus with ASIC and has not withdrawn that consent.

Signed for and on behalf of the Company.

Phillip Wingate
Director
13 May 2016

13. Definitions

Acquisition Agreement means the share sale agreement between the Company, Botanix Pharmaceuticals, the Botanix Vendors and US Subsidiary for the acquisition of Botanix Pharmaceuticals by the Company, dated 15 April 2016.

Acquisition means the acquisition of 100% of the issued capital of Botanix Pharmaceuticals pursuant to the Acquisition Agreement.

Acquisition Resolutions means Resolutions 1-12 to be considered at the General Meeting.

Advisor Options means Options to be issued to the Lead Manager and/or its nominees at $0.00001 per Option, with an exercise price of $0.03 per Optionand an expiry date 3 years after the date of issue.

Advisor Options Offer means the offer of 13,000,000 Advisor Options to the Lead Manager and/or its nominees at a price of $0.00001 each**.**

Applicant means a person who makes an application under this Prospectus.

Application Form means the application form attached to or accompanying this Prospectus in relation to the Offer.

Application Monies means the amount of money in dollars and cents payable for Shares at $0.02 per Share pursuant to the Offer. Applications monies for the Advisor Options means the amount of money in dollars and cents payable for Advisor Options at $0.00001 per Advisor Option pursuant to the Advisor Options Offer.

Argonaut means Argonaut Securities Pty Limited (ACN 108 330 650).

ARTG means Australian Registration of Therapeutic Goods.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited (ACN 008 624 691) or the Australian Securities Exchange, as the context requires.

ASX Settlement means ASX Settlement Pty Limited (ACN 008 504 532).

ASX Settlement Operating Rules means the settlement and operating rules of ASX Settlement.

Board means the board of directors of the Company.

Bosch Agreement has the meaning given in Section 10.3(b)(iii)(A).

Bosch Consultancy Agreement has the meaning given in Section 10.3(c)(ii)(A).

Botanix Pharmaceuticals means Botanix Pharmaceuticals Inc, a company incorporated pursuant to the laws of Delaware, United States.

Botanix Vendors means Shenasaby Pty Ltd (ACN 112 145 070) as trustee for the Shenasaby Trust, Caperi Pty Ltd (ACN 607 381 224) as trustee for the Caperi Trust and Dr William Bosch.

Business Day means Monday to Friday except for any day that ASX declares is not a business day.

Callahan Agreement has the meaning given in Section 10.3(b)(ii)(A).

Callahan Consultancy Agreement has the meaning given in Section 10.3(c)(i)(A).

Chair means the person appointed as the chair of the Board from time to time.

CHESS means the Clearing House Electronic Subregister System operated by ASX Settlement.

Closing Date means the date that the Offers closes which is 5.00pm (WST) on 14 June 2016 or such other time and date as the Board determines.

Company means Bone Medical Limited (ACN 009 109 755).

Company Secretary means the person appointment as the company secretary of the Company from time to time.

Completion means completion of the sale and purchase of 100% of the issued capital of Botanix Pharmaceuticals under the Acquisition Agreement.

Completion Date means the completion date under the Acquisition Agreement.

Constitution means the Current Constitution or the Proposed Constitution, as applicable.

Cooper Consultancy Agreement has the meaning given in Section 10.3(c)(iii)(A).

Consideration Shares means the 153,060,000 Shares offered to the Botanix Vendors.

Consolidation means the consolidation of the capital of the Company on a 1:3⅓ basis to be approved at the General Meeting.

Controlled Substances Act means the United States Federal Controlled Substances Act of 1970.

Corporations Act means the *Corporations Act 2001* (Cth).

CTN means clinical trial notification.

Current Constitution means the current constitution of the Company.

DEA means the Drug Enforcement Administration of the United States.

Director means a director of the Company.

Existing Directors means Mr Phillip Wingate, Mr Robert Towner and Mr John Hannaford, further details of whom are provided at Section 9.2.

FDA means the Food and Drug Administration of the United States.

General Meeting means the general meeting of Shareholders to be held on 14 June 2016 and described in Section 1.3.

GMP means Good Manufacturing Practices.

Griffiths Agreement has the meaning given in Section 10.3(b)(i)(A).

Group means the Company and all of the present and future subsidiaries, affiliates, associates, administrators, successors and permitted licensees and assigns.

HREC means Human Resource Ethics Committee.

Incentive Plan means the employee securities incentive plan for the Company to be approved at the General Meeting.

Indemnity Deeds has the meaning given in Section 10.3(f).

IND means investigational new drug.

Intellectual Property means all copyright, all rights in relation to inventions, patent rights, registered and unregistered trademarks, registered and unregistered designs, business names and confidential information (including trade secrets and know how).

Investigating Accountant means BDO Corporate Finance (WA) Pty Ltd (ACN 124 031 045).

Intellectual Property Expert's Report means the report in Section 8.

Investigating Accountant's Report means the report in Section 6.

Lead Manager means Argonaut.

Lead Manager Mandate means the mandate appoint Argonaut as lead manager of the Offer, as summarise in Section 10.3(d).

Listing Rules means the listing rules of ASX.

Merged Group means the Company and Botanix Pharmaceuticals following Completion of the Acquisition.

Offer means the offer of 150,000,000 Shares (on a post-Consolidation basis) to the public at an issue price of $0.02 per Share to raise $3,000,000, with the ability to accept oversubscriptions of up to a further 25,000,000 Shares (on a post-Consolidation basis) at an issue price of $0.02 per Share to raise up to a further $500,000 (before costs and expenses).

Offers means the Offer and the Advisor Options Offer.

Official List means the official list of ASX.

Official Quotation means quotation of Shares on the Official List.

Opening Date means the first date for receipt of completed Application Forms under the Offer which is 9.00am (WST) on 13 May 2016**.**

Option means the right to acquire one Share in the capital of the Company.

Oversubscriptions has the meaning given under Section 2.1.

Permetrex™ Licence Agreement means the agreement between Botanix Pharmaceuticals and Dr Eugene Cooper as summarised in Section 10.2(a).

Proposed Constitution means the proposed constitution of the Company for which Shareholder approval is intended to be sought at the General Meeting.

Proposed Directors means Mr Graham Griffiths, Mr Matthew Callahan and Dr William Bosch, further details of whom are provided at Section 9.3.

Prospectus means this prospectus dated 13 May 2016.

Proxima Group means the following companies collectively, Proxima Concepts Limited (Company Number 84224), Proxima Laboratory & Research Services Limited (Company Number 87471), Vaxcine Limited (Company Number 83237), Lexcicon Limited (Company Number 88778), Mozaic Discovery Limited (Company Number 431039) and Axcess Limited (Company Number 83201).

Regulations means *The Customs (Prohibited Imports) Regulations 1956* (Cth).

Resolutions means the resolutions at the General Meeting, as summarised in Section 1.3.

Section means a section of the Prospectus.

Securities means Shares and/or Options (as appropriate).

Service Agreements means the services agreements as summarised in Section 10.3(e).

Share means a fully paid ordinary share in capital of the Company.

Share Registry means Automic Pty Ltd trading as Automatic Registry Services (ACN 602 355 699) of Suite 1a, Level 1, 7 Ventnor Avenue, West Perth, Western Australia.

Shareholder means a holder of one or more Shares.

Sharp means Sharp Clinical Services, Inc.

Sharp Clinical Agreement means the agreement between Sharp and Botanix Pharmaceuticals as summarised in Section 10.2(b).

TGA means the Therapeutic Goods Administration of Australia.

United States means the United States of America.

US Subsidiary means Bone Merger, Inc, a company incorporated pursuant to the laws of Delaware, United States.

WST means Western Standard Time, being the time in Perth, Western Australia.